

Mississippi Business Relations Council  
University of Alberta  
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Edmonton, Alberta T6G 2G4

AR74



CANADIAN  
WESTERN  
BANK  
Think Western®



# FIVE YEAR FINANCIAL SUMMARY

(\$ thousands, except per share amounts)

	2004	2003	2002	2001	2000
<b>Results of Operations</b>					
Net interest income (teb) <sup>(1)</sup>	\$ 117,236	\$ 107,655	\$ 91,284	\$ 85,501	\$ 73,367
Less teb adjustment	3,898	2,992	2,449	0	0
Net interest income	113,338	104,663	88,835	85,501	73,367
Other income	36,099	25,326	22,136	19,758	15,255
Total revenues (teb)	153,335	132,981	113,420	105,259	88,622
Total revenues	149,437	129,989	110,971	105,259	88,622
Net income from continuing operations <sup>(2)</sup>	44,161	38,193	29,612	30,145	29,394
Net income	44,161	38,193	29,612	30,145	26,349
Return on common shareholders' equity	12.9%	12.9%	11.2%	13.5%	14.7%
Return on average total assets	0.97%	0.95%	0.84%	0.95%	0.95%
<b>Per Common Share</b>					
Average common shares outstanding (thousands)	13,391	12,808	12,629	12,001	11,134
Basic earnings per share					
Net income from continuing operations	\$ 3.30	\$ 2.98	\$ 2.34	\$ 2.51	\$ 2.65
Net income	3.30	2.98	2.34	2.51	2.37
Diluted earnings per share					
Net income from continuing operations	3.00	2.69	2.14	2.26	2.41
Net income	3.00	2.69	2.14	2.26	2.18
Dividends <sup>(3)</sup>	0.75	0.46	0.40	0.36	0.34
Book value	26.90	24.32	21.97	20.08	17.35
Market price					
High	\$ 48.25	\$ 40.00	\$ 29.35	\$ 30.50	\$ 24.00
Low	38.25	23.25	23.26	22.30	16.25
Close	47.65	39.95	25.75	26.27	23.00
<b>Balance Sheet and Off-Balance Sheet Summary</b>					
Assets	\$ 4,918,895	\$ 4,343,972	\$ 3,828,162	\$ 3,439,568	\$ 3,059,540
Cash resources and securities	773,214	694,699	533,496	501,228	446,351
Loans	4,005,080	3,601,003	3,248,747	2,886,640	2,560,092
Deposits	4,267,788	3,819,750	3,429,071	3,042,307	2,727,809
Subordinated debentures	110,600	121,951	57,126	67,126	67,126
Shareholders' equity	367,589	316,231	278,087	252,262	194,595
Assets under administration	1,759,473	1,474,964	1,166,489	873,538	741,181
<b>Capital Adequacy</b>					
Tangible common equity to risk-weighted assets	9.0%	8.9%	8.8%	9.3%	8.1%
Tier 1 ratio	9.0%	8.9%	8.8%	9.3%	8.1%
Total ratio	11.8%	13.1%	11.4%	12.5%	11.6%
<b>Other Information</b>					
Efficiency ratio (teb)	49.8%	46.3%	50.7%	50.0%	54.3%
Efficiency ratio	51.1%	47.4%	51.8%	50.0%	54.3%
Net interest margin (teb)	2.57%	2.68%	2.60%	2.69%	2.64%
Net interest margin	2.48%	2.60%	2.53%	2.69%	2.64%
Provision for credit losses as a percentage of average loans	0.25%	0.25%	0.26%	0.23%	0.21%
Net impaired loans as a percentage of total loans	(0.36)%	0.13%	0.25%	0.17%	
Number of full time equivalent staff <sup>(4)</sup>	936	632	583	548	509
Number of bank branches	29	27	27	27	25

<sup>(1)</sup> Most banks analyze revenue on a taxable equivalent basis (teb) to permit uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statement of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividend received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. Prior to fiscal 2002, tax-exempt security income was insignificant and no taxable equivalent adjustments were made. The taxable equivalent basis does not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other banks.

<sup>(2)</sup> The sale of our brokerage subsidiary closed February 16, 2000. The results of operations and the loss on disposal have been disclosed separately from continuing operations.

<sup>(3)</sup> The dividend policy was amended to be quarterly instead of semi-annual during the first quarter of fiscal 2004. The dividend rate for fiscal 2004 appears unusually high as it includes the last semi-annual dividend of \$0.30 per share paid in the first quarter and quarterly dividends of \$0.15 paid in subsequent quarters.

<sup>(4)</sup> The increase in employees in 2004 is due to the acquisitions of Canadian Direct Insurance Incorporated and Valiant Trust Company.

# OUR HISTORY OF GROWTH IS THE RESULT OF DOING BUSINESS THE THINK WESTERN® WAY.

## Welcome to Our Story

The Canadian Western Bank story. It's a real story of growth. And of hard work and dedication by 1,000 passionate people who look at the world of financial services in a different way – from a Think Western® perspective. It's a philosophy that gives our customers a level of service and respect that they truly appreciate. It's a way of doing business that's all about building relationships for the long term. And while we could tell you more, you really need to read the chapters that follow to get the full story.

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## 2004 HIGHLIGHTS

- Record net income of \$44.2 million, an increase of 16% over the previous high in 2003
- Achieved our 66th quarter of profitability, a period spanning more than 16 years
- Grew total revenues by 15%, with non-interest revenues up a very strong 43%
- Grew loans by 11% - marking our fifteenth consecutive year of double digit loan growth
- Demonstrated continued strong credit quality, with an annual provision for credit losses of 0.25% of average loans
- Grew lower cost demand and notice deposit balances by 30%, a key factor in leveraging our core profitability
- Continued to lead the Canadian banking industry in productivity as measured by our 49.8% efficiency ratio (expenses to total revenues)
- Completed a major branch development program that included two new and four significantly upgraded and relocated branches, as well as one expanded branch
- Entered a third pillar of the financial services industry with the acquisition of Canadian Direct Insurance Incorporated, a direct provider of home and automobile insurance to over 130,000 policyholders in British Columbia and Alberta
- Enhanced our trust services with the acquisition of Valiant Trust Company, a specialty trust company that provides stock transfer and corporate trustee services to public companies and income trusts
- Realized strong revenue and earnings contributions from Canadian Direct and Valiant since their acquisition in April 2004

## PERFORMANCE TARGETS

We are pleased with our achievement against 2004 performance targets. The key target of 15% net income growth was exceeded with actual growth of 16%. Total revenue growth of 15% for the year came in at the high end of our target range of 12-15%. While loan growth of 11% was slightly below the target of 12%, we achieved our fifteenth consecutive year of double-digit loan growth. We also continued a long trend of strong and stable credit quality during the year and achieved our target for loan loss provisions of 0.25% of average loans. Our efficiency ratio reflects lower than expected revenue growth from banking and trust operations as well as the impact of the expense structure of Canadian Direct Insurance.

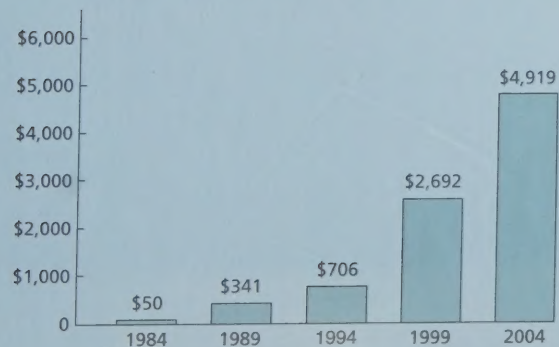
Key financial targets for 2005 include earnings growth of 15%, total revenue growth of 15-18%,

loan growth of 12% and continued strong credit quality with a provision for credit losses of 0.25% of average loans. We expect continued growth across all business lines and with our strong capital base, we are well positioned to address new growth opportunities.

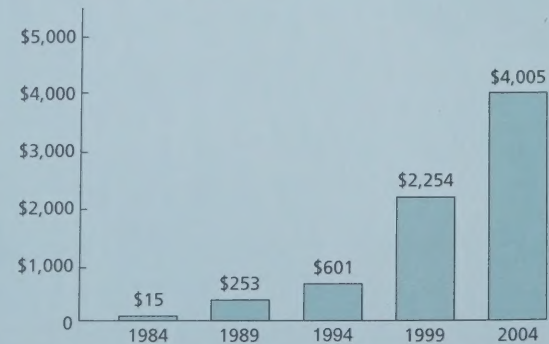
	2004 Target	2004 Performance	2005 Target
Net Income Growth	15%	16%	15%
Total Revenue Growth	12-15%	15%	15-18%
Loan Growth	12%	11%	12%
Provision for Credit Losses as a Percentage of Average Loans	0.25% or less	0.25%	0.25% or less
Efficiency Ratio	46.0% or less	49.8%	50.0% or less
Return on Equity	13-15%	12.9%	12% or greater
Return on Assets	0.98% or greater	0.97%	0.98% or greater

## OUR HISTORY OF FINANCIAL GROWTH

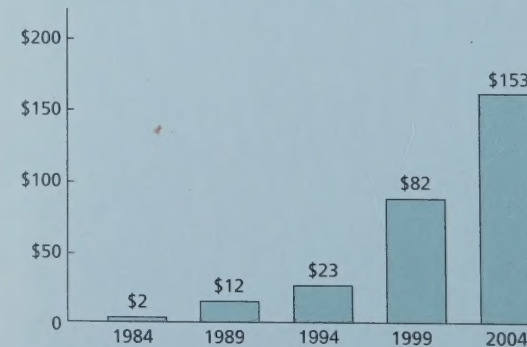
Total Assets (millions)



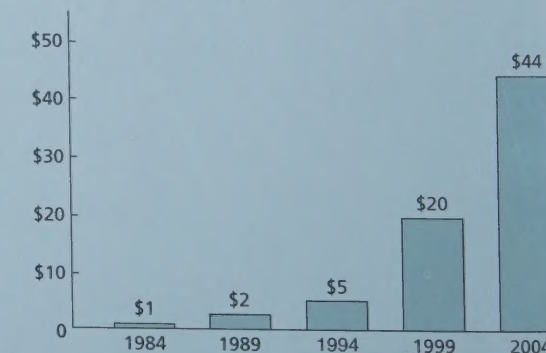
Loans (millions)



Total Revenues (teb) (millions)



Net Income (millions)



# OUR HISTORY OF GROWTH IS THE RESULT OF DOING BUSINESS THE THINK WESTERN® WAY.

## Welcome to Our Story

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# MESSAGE TO SHAREHOLDERS

We are pleased to report that Canadian Western Bank has once again achieved a year of significant growth and record financial performance.

The last year saw Canadian Western Bank (CWB or the Bank) reach new milestones of financial achievement including record revenues and earnings, double-digit loan growth for the fifteenth consecutive year, and our sixty-sixth consecutive quarter of profitability. Annual net income of more than \$44 million increased by 16 percent over the previous record set in 2003 and total revenues grew by 15 percent to surpass \$150 million. With total loans of \$4 billion and total assets of almost \$5 billion, we have grown at a remarkable pace, more than doubling our size in the last six years.

In April of 2004 we completed the acquisitions of Canadian Direct Insurance Incorporated and Valiant Trust Company, two companies which further diversify our operations and fit exceptionally well with our Think Western® philosophy of western hospitality and specialty service. Both companies generated a return on investment that exceeded our expectations in 2004. They also provided a significant contribution to the very strong growth in non-interest revenues, a key strategy that remains a focus. Most importantly, both Canadian Direct and Valiant possess excellent growth potential that we expect to capitalize on in 2005 and beyond.

The market price of the Bank's shares finished the year at \$47.65 compared to \$39.95 one year ago. With reinvested dividends this produced a shareholder return of 21 percent. Our shareholder return over the last five years has outpaced both the S&P/TSX Composite Index and the S&P/TSX Financials Index.

## Commercial and Personal Banking

The solid performance of our commercial banking business remains fundamental to the Bank's success. Execution of our proven business plan and exploiting demonstrated strengths in this area added another year to the Bank's impressive history of growth. In addition to sustained loan growth, we

have had well over a decade of strong credit quality and low loan losses. This trend continued in 2004 with a provision for credit losses of 25 basis points of average loans. In contrast to recent industry fluctuations, our provision for credit losses has been stable at between 18 and 27 basis points in each quarter for the last five years.

During the year we made excellent progress against our key strategy of lowering funding costs through growth in deposits generated by our branch network and Canadian Western Trust. Branch deposits increased 15 percent in 2004, with very strong growth in lower cost demand and notice deposits of 30 percent. The resulting lower funding costs have had a significant positive impact on earnings and continuing to build on this momentum remains a key strategic objective.

Supporting both the commercial and personal banking growth were investments in branch infrastructure including the opening of a new full service branch in St. Albert, Alberta as well as a new industrial lending office in Prince George, British Columbia. We also completed the relocation and expansion of a number of other facilities in key markets where our customers are now served by larger, more accessible branches in convenient, highly visible locations. Subsequent to year end, we opened a new industrial lending office in Kamloops, British Columbia bringing the Bank's total branch network to 30 locations across the four western provinces.

## Trust Services

With the purchase of Valiant Trust this year, we added stock transfer, registrar and corporate trustee services to the personal and group custody trust products already offered through Canadian Western Trust. These new services not only contributed to a doubling of trust revenues, they also position us well to be the trust company of choice for independent financial advisors, corporations and individuals in Western Canada. With expanded product and service offerings and strategic partnerships

with AGF Trust Company, Qtrade Investor Inc. and others, we have the tools necessary to support ongoing expansion of our trust business at a healthy pace.

### Insurance

Through the acquisition of Canadian Direct Insurance Incorporated we entered a third pillar of the financial services industry and became a large provider of private automobile insurance in British Columbia and a growing player in the Alberta market. Canadian Direct provides home and automobile insurance directly to over 130,000 policyholders in British Columbia and Alberta, which doubles the number of retail customers under the CWB umbrella. In 2004, Canadian Direct exceeded our expectations with a strong contribution to earnings of \$2.6 million. Going forward, we are excited about Canadian Direct's growth potential and we anticipate that current and new co-branding initiatives will noticeably increase awareness of both Canadian Direct and Canadian Western Bank.

### Think Western® Culture

This year Canadian Western Bank proudly celebrated its 20th anniversary. Many successes and milestones have been achieved throughout our history, none of which would have been possible without our incredible team of people and their commitment to the Think Western® philosophy. It is this philosophy that differentiates us from competitors and has created the platform for the last twenty years of growth and prosperity. We would like to recognize and thank all of our employees for their ongoing dedication and contributions to our success.

### Governance

There continues to be a significant focus on corporate governance issues across all public companies. Throughout our history, we have always made strong and effective corporate governance a priority as we view it as essential to long term success. Our governance policies are designed to strengthen the ability of the Board to effectively oversee

management and enhance shareholder value. The Board continually adapts the governance framework to adopt best practices and meet changing needs.


### Outlook

This annual report is titled "A Growth Story" which is an appropriate description of not only the last year, but also the twenty-year history of Canadian Western Bank. Even with the outstanding performance in 2004, which sets the bar even higher for the coming year, we are very optimistic that we can generate continued strong growth in our business and in the return for our shareholders.

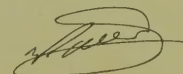
Growth in 2005 is expected to come from sustained focus on our core commercial banking business, the prospects for which are positive given the current economic outlook for Western Canada, and for Alberta and British Columbia, in particular. We also expect strong growth in the trust and insurance business lines as we explore opportunities to cross-market products and services. In the coming year we also look to further expand on our new initiative in the residential mortgage business.

With a strong capital position, supported by the conversion of convertible debentures and the issue of new non-dilutive subordinated debentures subsequent to year end, we will seek new growth opportunities to enhance operations across all business lines and increase shareholder value.

Key financial targets for 2005 include net income growth of 15 percent, revenue growth of 15 to 18 percent and loan growth of 12 percent. We expect 2005 to be a year in which our core fundamental strengths and new initiatives take Canadian Western Bank to even higher levels of performance.



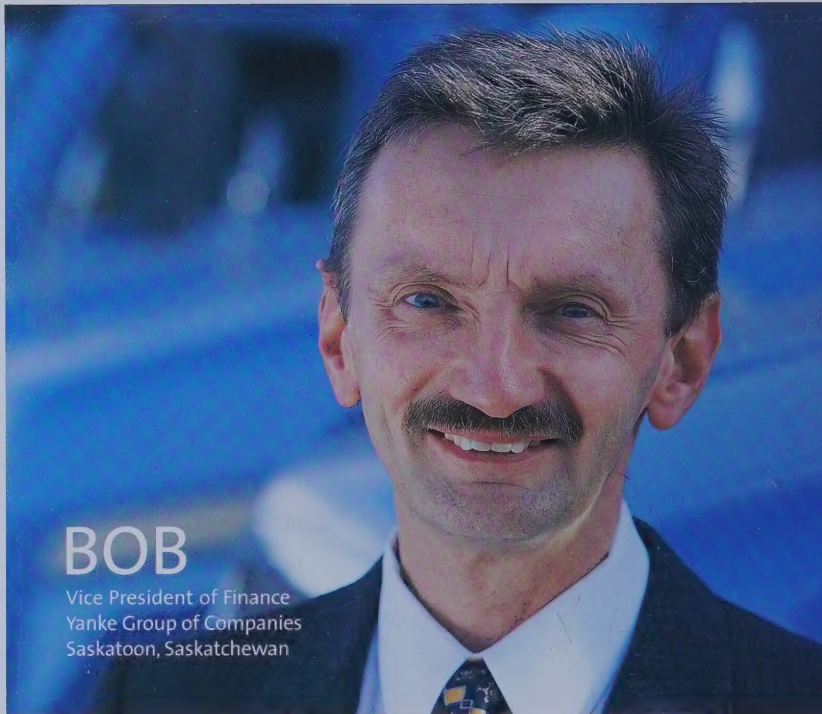
Jack C. Donald  
Chairman



Larry M. Pollock  
President and CEO



*This is Bob Pratt, Vice President of Finance, Yanke Group of Companies. As Bob explains, "CWB provides a long-term partnership that Yanke can rely upon. We depend on them for their top quality service and competitive rates." Bob says Yanke likes dealing with CWB because "they have a western presence and are easy to do business with." We can't argue with that, Bob.*



**BOB**

Vice President of Finance  
Yanke Group of Companies  
Saskatoon, Saskatchewan

## COMMERCIAL BANKING

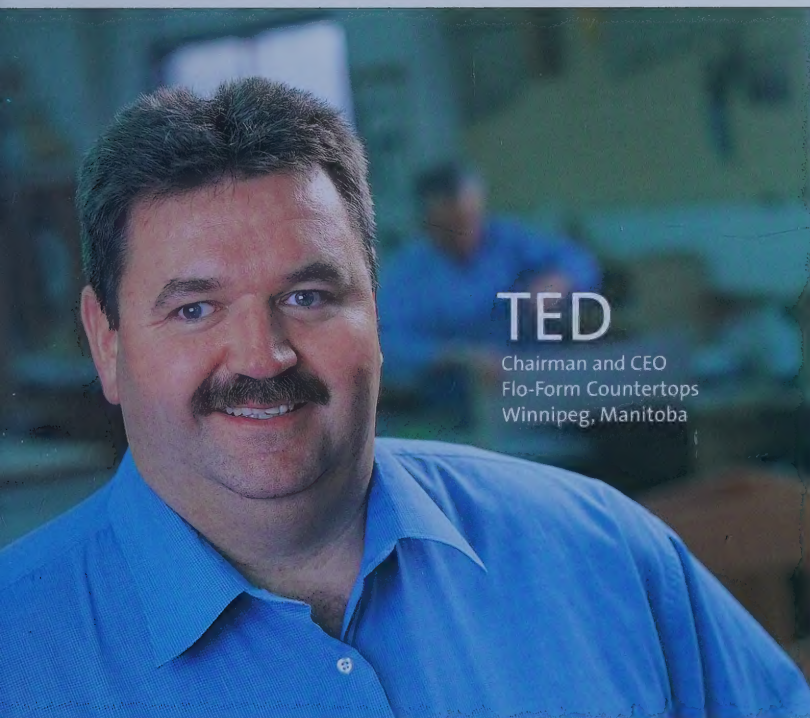
Helping businesses exceed their goals is a truly satisfying experience. We fully understand that business owners have dreams, and that's why we take pride in knowing that as commercial banking specialists, we are a catalyst for growth to a variety of businesses across Western Canada.

We are proud to report our 15<sup>th</sup> consecutive year of double-digit loan growth. So what's the secret? Well, there is no magic formula, but our Think Western® philosophy of providing prompt, local decisions, building long-term relationships, offering full-service commercial banking, and serving up an abundance of genuine personal service really resonates with our business clients.

Commercial banking is our key engine of growth. As we continue to strengthen existing relationships, new ones are constantly being created as more and more people become exposed to our refreshing, respected way of doing business.

Another key has been to focus our lending efforts on mid-market businesses in the Western Canadian markets we know and understand. We specialize in Commercial Operating & Term Loans, Industrial Equipment Financing & Leasing, Commercial Real Estate Lending and Oil & Gas Financing. By concentrating on these areas and gaining a thorough understanding of each, we have been able to achieve growth and success on a consistent basis.





TED

Chairman and CEO  
Flo-Form Countertops  
Winnipeg, Manitoba

*Ted Sherritt is the Chairman and CEO of Flo-Form Countertops. He says that CWB "understands our business well, and with that knowledge can react quicker, so things get done in an expedited manner." He goes on to add that "the personal nature of the business relationship is something we value." We definitely value Ted as a customer as well. Thanks Ted.*

COMMERCIAL BANKING  
IS OUR KEY ENGINE OF  
GROWTH.



**BOB**

CWB Personal Banking Manager  
St. Albert, Alberta

*Meet Bob, Personal Banking Manager at our new full-service branch in St. Albert. Bob says the Think Western® philosophy is a perfect fit for him and his staff. "Our way of doing business – friendly, open, laid-back – puts customers at ease, which makes all aspects of banking more comfortable for both parties." Bob mentioned he gets great satisfaction from helping people and being part of a dedicated team. Next time you're in St. Albert, drop in and say hi to Bob and his team.*

THE CUSTOMER  
RELATIONSHIPS WE BUILD  
ARE GENUINE. IT'S THE  
WESTERN WAY.



## PERSONAL BANKING

As the banking needs of our customers continue to grow, so do our personal banking services. We believe it's important to exceed the needs of customers, that's why we continue to add more products, more services, and more branches! There are currently 30 branches across Western Canada.

No matter which branch you deal with, the Think Western® approach to customer service is abundantly evident. Good old fashioned face-to-face and sit down banking service in a relaxed atmosphere. There are no line-ups, no call centres, and of course, friendly and approachable staff are always there to help. This goes over very well with customers, and is one of the core reasons why we've been able to consistently grow.

For us, the term "personal banking" is all about relationships. It enables us to better understand and meet the needs of our customers. You can't build a genuine relationship through voice mail, that's why we don't have it. By always answering our phones when they ring, we are accessible and we communicate far more effectively with our customers. As a complement to our great in-person services, we also have telephone banking and internet banking for people on the go.

We offer full-service banking through a competitive range of deposit accounts, investment products, mutual funds, mortgages, personal loans, and other services including our Think Western® MasterCard®. All delivered with our signature Think Western® style of service.

*Say Hello to Anne. She's a Sales and Service Representative in Saskatoon. Anne plays a very important role, as she is the customer's initial contact in the branch. Anne says she loves the team of people she works with. "Our staff are excellent at what they do, and that makes my job easier. I like what CWB represents, and am proud to be associated with the company." According to Anne, the most rewarding aspect of her job is seeing customers walk out the door with smiles on their faces.*



Jacob Roorda is President of Harvest Energy Trust. Harvest has a strong relationship with Valiant Trust, a CWB subsidiary. "When we contact Valiant," says Jake, "they are there to answer our questions and help us accomplish our business objectives, whether it's dealing with an individual unit holder's concern, or a regulatory compliance issue or something as complicated as a capital market financing." Jake also likes the support that Valiant provides: "On a recent private placement, we were dealing with some of the most notable financial institutions in the world, and our partner Valiant was there with us shoulder-to-shoulder, helping us make it happen."



**JAKE**

President  
Harvest Energy Trust  
Calgary, Alberta

# A UNIQUE AND DIVERSE TRUST SERVICES ALTERNATIVE.



## TRUST SERVICES

CWT's wholly owned subsidiary, Canadian Western Trust (CWT), has achieved strong growth through the continued enhancement of product and service offerings and the development of strategic partnerships. Product offerings include corporate and group trust services, self directed RRSPs and RRIFs, as well as other complementary services such as investment lending and on-line discount brokerage.

A new chapter of our growth story started this year when we acquired Valiant Trust, a Calgary based company that provides stock transfer and trustee services to public companies and income trusts.

The Valiant fit is a natural one, in that Valiant has the same commitment to customer service excellence as we do. Customers can always expect the highest level of flexibility and personal service delivered by friendly, knowledgeable staff.

Together, CWT and Valiant offer a unique and diverse range of personal and corporate trust services. Western-based companies, independent financial advisors and individuals have an attractive alternative, backed by the time-honoured belief that providing excellent service at a reasonable cost is key to attracting and retaining customers.

A portrait of Donald, a man with light brown hair, wearing a dark suit, blue shirt, and patterned tie. He is smiling slightly and looking towards the camera. The background is a blurred image of a car's interior.

## DONALD

Chairman, Board of Trustees  
The Pension Plan For Employees  
of Canadian Ford Dealers  
Vancouver, British Columbia

*Donald is the Chairman, Board of Trustees, for The Pension Plan For Employees of Canadian Ford Dealers. "A couple of years ago we changed our trust services provider and selected CWT because of their reputation for quick, efficient service at a competitive price," says Donald. "As overseers of the plan, we were very concerned that the plan be secure and professionally managed in all respects, so we made our choice very carefully – and CWT fit that bill."*

Customers like Rick from Surrey have built a strong relationship with Canadian Direct Insurance. In fact, Rick has five auto policies plus home insurance too. "I have a real interest in cars," says Rick. "My wife and I have vehicles that we drive to work and insure all year round. Then I also have a few that are unique and mainly used in the summer," he added. "Canadian Direct is really flexible and they're just great to deal with."



**RICK**

Canadian Direct Insurance Customer  
Surrey, British Columbia

This is Gloria, a Canadian Direct Insurance Advisor in New Westminster. She is a big believer in Canadian Direct's superior coverage. As Gloria tells it, "Our coverage exceeds those of other insurance companies for a similar premium. Our high level of customer satisfaction in claims, service and sales shows that our clients are treated well." Gloria really enjoys helping people save money. "I never tire of hearing a client's reaction when I tell them that I've saved them money on their auto insurance," she says.



**GLORIA**

Canadian Direct Insurance Advisor  
New Westminster, British Columbia



## INSURANCE

Canadian Western Bank started a new chapter of growth this year when we acquired Canadian Direct Insurance. The addition of Canadian Direct was a major achievement, further diversifying our operations as we enter another pillar of the financial services industry. This important acquisition doubles the size of our retail customer base, and creates exciting new marketing opportunities.

As a fast-growing, western-based insurance company, Canadian Direct is all about customer service. Canadian Direct consistently achieves excellent customer

satisfaction ratings making our Think Western® culture a natural fit.

Through Canadian Direct, we provide personal home and auto insurance to over 130,000 policyholders in British Columbia and Alberta. While other insurance companies deal through brokers, Canadian Direct deals directly with all customers and is thereby able to eliminate broker commissions. An advanced quoting system is used and all sales are completed with the consumer over the phone or via the internet.

All of this results in better insurance, for less money.

# BETTER INSURANCE, FOR LESS MONEY.

# OUR SUCCESS IS ALL ABOUT OUR PEOPLE AND CULTURE.



**FRANCO**

President and CEO  
Edmonton YMCA  
Edmonton, Alberta

*This is Franco Savoia, President and CEO of the Edmonton YMCA. Canadian Western Bank has proudly provided support to the YMCA for more than a decade. According to Franco, "The people have been terrific to deal with, and have provided very helpful advice." CWB contributes financially as well, including a recent leadership donation given to help with the construction of a new downtown facility. "I can honestly say we would not be in the position we are in today in terms of the 50,000+ people we are serving without the help we have received from Canadian Western Bank," says Franco.*



## CULTURE AND COMMUNITY

Consistent growth requires a strong culture. At Canadian Western Bank, our culture is fuelled by a commitment to the team approach, and a dedication to the nurturing of customer relationships. Our employees are great at what they do, but more importantly, they are great people too. We truly do enjoy each other's company, and we love working with our customers to help them achieve success.

Our unique culture is made up of 1,000 extraordinary people across the four western provinces in our banking, trust and insurance lines of business. No matter which area you deal with, all are committed to offering the Think Western® brand of customer service that quite frankly, is unmatched in the industry.

At CWB, we really do go that extra mile when it comes to customer satisfaction, ensuring you always feel at home and get the service you deserve. So it's not surprising that we want to excel when helping out in our local communities as well.

While we grow as a company, our various community endeavors also help us grow as individuals. We are active in supporting a variety of charities, including the United Way and the YMCA. And our employees donate countless hours of their own time in supporting numerous organizations across Western Canada. We're proud to be giving back to the community.

*Anna is Manager of CWB's Deposit Processing Centre in Edmonton. She is also our Employee Campaign Chair (ECC) for the United Way. Whether holding a silent auction, or holing a putt in a mini-golf fundraiser, Anna is dedicated to raising funds for this worthy cause. Anna says that "making a difference in the community" is the most rewarding part of her role as ECC. She also has an interesting perspective on our growth. "As Canadian Western Bank grows, so does our community involvement," says Anna.*



**ANNA**

CWB Manager, Deposit Processing Centre  
United Way Employee Campaign Chair  
Edmonton, Alberta

# CORPORATE GOVERNANCE

## INTRODUCTION

Sound and effective corporate governance has always been a priority for Canadian Western Bank. The Board of Directors and management of the Bank are committed to govern and maintain the Bank's operations effectively and efficiently within its regulatory environment. Corporate governance policies are reviewed regularly for improvement and are designed to strengthen the ability of the Board to effectively supervise management and enhance long-term shareholder value.

The Board's Corporate Governance & Human Resources Committee provides direction, monitors compliance and makes recommendations to the Board to enhance corporate performance and promote ongoing improvement in Board effectiveness.

In addition to the information presented below, a tabular presentation of the Bank's compliance with the corporate governance guidelines of the Toronto Stock Exchange (TSX) is provided in the management information circular available on SEDAR at [www.sedar.com](http://www.sedar.com).

## THE BOARD AND BOARD COMMITTEES

The Board is currently comprised of twelve members. The number of directors reflects the desire to have the geographical jurisdictions in which the Bank operates represented and the need to fill, with desired and appropriate experience and knowledge, the memberships of the two required committees, the Audit and Conduct Review Committees, and the other board committees which are the Loans Committee and the Corporate Governance & Human Resources Committee. The Board has reviewed the status of each of its directors and determined if they are "affiliated" (as defined by the affiliation rules set forth in the Bank Act (the Act)) or "unrelated", as defined in the TSX guidelines on corporate governance. As a result of this review, the Board has determined that one of the directors is affiliated (the CEO) and he is also the only inside director. All other directors are "unrelated" – i.e. independent.

At the time of appointment to the Board, at least 75 percent of the board members must be resident Canadians and no more than four members may be employees of the Bank. Currently the composition is well within these requirements as only one board member is non-resident and the CEO is the only employee on the Board. The Chairman is an independent director and is appointed annually by the members of the Board. Responsibilities not delegated to senior management or to a committee of the Board remain those of the full Board. The Board expects all significant risks identified, assessed and the internal controls to deal with them, to be identified and reported upon by senior management to the Board and/or its committees. Members of the Board, except for the CEO, are required to own common shares of the Bank equivalent to two times their annual retainers. The CEO is required to own common shares equivalent to two times base salary.

The Board holds four regular meetings each year, as well as additional meetings as required. Most committees meet quarterly and all meet annually at a minimum, with the exception of the Loans Committee which meets several times per year as required by customer demand. A meeting agenda matrix is issued to ensure

meetings of the Board and its committees are efficient and complete. At the end of every regularly scheduled Board meeting a session is held without any management, including the CEO, present.

The Board of Directors as a whole has expressly assumed responsibility for developing the Bank's approach to governance issues although the Corporate Governance & Human Resources Committee plays a key role by recommending and reporting on governance issues including ethical conduct to the Board. In addition, certain governance issues have been delegated to other committees of the Board.

The Act contains several sections dealing with the governance of a bank through its board of directors. These sections prescribe matters such as limitations on the number of directors who can be affiliated or non-resident, certain powers that must be transacted by the full Board, and requirements to establish both an audit committee and a conduct review committee. The Act also prescribes certain minimum benchmarks for board and committee membership, quorums and the transaction of business by the Board. The three encompassing duties in the Act that form the basis for the Board's mandate are:

- to manage or supervise the management of the business and affairs of the Bank;
- to act honestly and in good faith with a view to the best interests of the Bank and exercise the care, diligence and skill that a reasonably prudent person would exercise in similar circumstances; and
- to comply with the Act, the regulations, the Bank's incorporating instrument and its by-laws.

The mandate of the Board also includes references to compliance with the Canada Deposit Insurance Corporation's (CDIC) Standards of Sound Business and Financial Practices. An annual attestation on adherence to the CDIC Standards covering the broad areas of Corporate Governance, Strategic Management, Risk Management, Liquidity and Funding Management, Capital Management, Control Environment, Business Conduct and Process to Ensure Control is completed.

The mandate of the Board also specifically includes other matters which are not necessarily stated in the Act or in the CDIC Standards and they are summarized as follows:

- approve the annual and quarterly financial statements and specified returns, prior to release to the public or submission to OSFI;
- review and approve the strategic plan, the annual business plan and accompanying capital plan and financial operating budget, including capital expenditures;
- review and approve the issuance of securities, redemption of securities and declaration of dividends;
- outline the content and frequency of management reports on financial operations;
- review and ratify the employment, appointment, grade levels and compensation of the top five executive employees and approve all senior officer appointments;
- review succession plans;



- review any recommendations from regulators or shareholders' auditors respecting their assessment of the effectiveness of the internal controls that come to their attention in the conduct of their work;
- ensure an independent audit/inspection function is in place to monitor the effectiveness of organizational and procedural controls;
- review and accept reports from the Audit, Conduct Review and Corporate Governance & Human Resources Committees and the Board of Canadian Direct Insurance; and
- approve loan write-offs.

#### AUDIT COMMITTEE

Members: Robert Manning (Chair)  
Wendy Leaney  
Gerald McGavin  
Robert Phillips  
Alan Rowe

This committee is comprised of five financially literate, independent directors. Its mandate is summarized as follows:

- review the annual financial statements and other required and related annual public documents and report thereon to the directors before approval is given;
- review such returns as OSFI may specify;
- require management to implement and maintain appropriate internal control procedures. Review, evaluate and approve those procedures;
- review such investments and transactions of the Bank, that could adversely affect the well-being of the Bank as the shareholders' auditors or any officer of the Bank may bring to the attention of the committee;
- meet with the shareholders' auditors to discuss the annual statements and the returns and transactions referred to within the mandate and receive the auditors' reports thereon;
- meet with the Chief Inspector and management to discuss reports on internal audit activities and findings and the effectiveness of the internal control procedures established for the Bank. Review the mandate and annual plan of the internal audit department;
- review the quarterly earnings reports to the shareholders, including the interim unaudited statements, and report thereon to the directors before approval is given and information is disclosed publicly;
- review a quarterly report from the Audit Committee of Canadian Direct Insurance;
- review a quarterly report from the Loans Committee of the Board, concerning the quality of the loan portfolio, the adequacy of the allowance for credit losses and accounts recommended for write-off;
- review a report on adherence to the CDIC Standards of Sound Business and Financial Practices annually and report thereon to the directors before approval is given;
- recommend to the Board the appointment of the shareholders' auditors;

- review the terms of the shareholders' auditors' engagement, their level of compensation, the audit plan, any proposed changes in accounting policies, their presentation and input concerning significant risks and key estimates and judgements of management. The Committee is responsible for resolution of disagreements between the shareholders' auditors and management regarding financial reporting and the shareholders' auditors shall report directly to the Committee;
- review the independence of the shareholders' auditors;
- review correspondence received from regulators and shareholders' auditors together with management's responses thereto, concerning the effectiveness of internal controls and other matters that fall within the responsibility of the Committee;
- review the appointment of the Chief Financial Officer (CFO) and the Chief Inspector;
- meet regularly with the Chief Inspector and shareholders' auditors without management present;
- review and approve the policy for non-audit services that can be carried out by the shareholders' auditors including pre-approval for all but de minimis engagements;
- as the Committee sees as fit and proper, review other items or matters that may affect the well-being of the Bank;
- establish procedures for the receipt and handling of complaints received by the Bank regarding accounting, internal accounting controls, or auditing matters, and establish procedures for the confidential, anonymous submission by employees of the Bank of concerns regarding questionable accounting or auditing matters;
- review and approve the Bank's hiring policies regarding employees and former employees of the present and former external auditors of the Bank;
- engage independent counsel or advisors and fix their remuneration as the Committee deems appropriate; and
- review periodically the Code of Conduct for senior financial officers.

#### CONDUCT REVIEW COMMITTEE

Members: Albrecht Bellstedt (Chair)  
Charles Allard  
Allan Jackson  
Arnold Shell

This committee is comprised of four independent directors and its mandate is summarized as follows:

- establish procedures to ensure disclosure of transactions with specified related parties of the Bank and, further, to review any such transactions to ensure compliance with the Act, either approving or declining the transactions, as required;
- review and approve internal policies for credit arrangements and financial services available to employees of the Bank under the regulations concerning officers and associated parties;
- monitor aggregate transactions of the Bank with directors as well as officers and their interests to ensure continued compliance with the Act with excesses over permitted limits brought to the Board for consideration;

- review the conduct policy and any other specialized standards on an annual basis to ensure relevance and completeness in regard to legislative requirements;
- monitor procedures for conflicts of interest, confidential information, disclosure of information and handling of customer complaints, and be satisfied that the procedures are being adhered to; and
- ensure every employee, officer and Board member agrees to comply, in writing with annual acknowledgement, with the Bank's conduct policies.

#### **CORPORATE GOVERNANCE AND HUMAN RESOURCES COMMITTEE**

Members: Jack Donald (Chair)  
Albrecht Bellstedt  
Allan Jackson  
Robert Manning  
Howard Pechet  
Robert Phillips

This committee is comprised of six independent directors and its mandate is summarized as follows:

##### **Corporate Governance**

- recommend to the Board appropriate structure and process required to address governance issues and maintain compliance with all corporate governance guidelines;
- review and monitor compliance with corporate governance guidelines and follow any issues noted by the members or as reported to them by management or other directors from time to time;
- no less than annually, report to the Board on corporate governance issues and any instances of non-compliance, together with appropriate recommendations; and
- hire appropriate consultants, or request management to perform studies and to furnish other information as required; to review such information and take such actions based thereon as appropriate.

##### **Executive Employees: Recruitment and Compensation**

- review and recommend to the Board the employment and appointment of the top five executive employees, to establish their grade levels and compensation, as well as to determine promotions and to consider changes where warranted in the level of compensation and grade of incumbent executive employees and officers upon review of their performance;
- review the position descriptions for the top five executive employees, ensuring such descriptions remain current and appropriate and, further, to also ensure position descriptions are in place for all other executive officers;
- establish in conjunction with the CEO, an executive compensation structure to compensate all levels of executive employees and, within such compensation structure as may at that time be in effect, to make adjustments and annual revisions as necessary;

- ensure an annual performance appraisal is completed for the CEO and that it is reviewed with him by the Chairman of the Board;
- establish, amend and, where appropriate, terminate:
  - all programs and other personal benefits granted to executive employees;
  - incentive compensation plans and other bonus arrangements, to administer such plans and to make appropriate interpretations and determinations as required;
  - share incentive plans and similar arrangements involving the grant of share options, or other benefits to employees attendant upon the issuance of securities, and, in addition, to make grants of options under any share incentive plan and generally to administer such plans, subject to necessary regulatory and shareholder approval; and
  - annuity, pension, and retirement programs for executive employees;
- review the human resource succession plan as prepared by senior management for all officers and any other senior position considered critical to operations; and
- review and report to the Board on compensation plans for senior management and other personnel in order to confirm they are consistent with the Bank's sustainable long-term objectives.

##### **Board Composition and Development**

- seek and recommend individuals to be considered for Board membership, as required by the Board, and forward their recommendations to the Board for its consideration;
- review, monitor, and make recommendations regarding new director orientation and the ongoing development and education of existing Board members;
- evaluate bi-annually, Board effectiveness including membership criteria, composition structure and size and, on alternate years, the involvement and contribution of the individual members with concerns recorded, and brought to the attention of the committee chair, who, in conjunction with the committee, determines if further action is required;
- review and recommend to the Board the fees and other benefits to be paid to directors; and
- make recommendations to the Board regarding revisions or additions to the Board of Directors' Manual.

#### **LOANS COMMITTEE**

Members: Allan Jackson (Chair)  
Charles Allard  
Jack Donald  
Wendy Leaney  
Gerald McGavin  
Howard Pechet  
Larry Pollock  
Alan Rowe



This committee is comprised of eight directors, seven of whom are independent. The CEO, who is an affiliated, inside director, is a member of this Committee. Its mandate is summarized as follows:

- establish and approve a lending limit for the Bank and the CEO within the limits established by the Board and review such limits at least annually;
- review, approve and/or decline all credit applications for loans to a foreign country and for amounts in excess of delegated limits up to the limit established, not to exceed ten percent of common equity plus retained earnings or eleven percent for sovereign, provincial or major municipality risk;
- recommend for approval of the full Board, any loan proposals in excess of the Committee's limit;
- review the policy on Director Related Loans and make recommendations to the Board;
- annually review and approve the credit risk management program and policies, including management's real estate appraisal policies and procedures, to ensure they are sound, prudent and in accordance with CDIC Standards;
- review/amend management's recommendations for loan loss provisions and loan write-offs and recommend acceptance to the Audit Committee for their presentation to the Board; and
- provide direction with respect to concentration risk and the identification criteria, procedure and action required on loans reported by management to be less than satisfactory.

#### **BOARD AND MEMBER REVIEW AND ASSESSMENT**

In response to the Board's commitment to effective corporate governance, a two pronged evaluation process has been initiated. On "even" years, the Board members assess their effectiveness as a Board. In "odd" years, a peer evaluation of each member is scheduled.

During the Board assessment, members are asked to rate items such as structure and size of the Board, the knowledge and diversity of the membership as well as the timeliness and completeness of information received for discussion and the overall effectiveness of the decision making process. The peer evaluation involves questions such as effectiveness in discussions and decision-making, attendance and whether the director's non-Bank activities enhance or detract from shareholder value.

Both evaluation processes are conducted in-house and require all members to complete questionnaires that are forwarded to the Board Chair. The Chair then compiles the results and prepares a single document that includes any comments that may have been forwarded. Anonymity of the particular submitter is maintained with the aggregate results presented to the Corporate Governance and Human Resources Committee for discussion and action if required. The results are then communicated on an aggregate basis, to the full Board for discussion and recommendations as required.

#### **OTHER AREAS OF CONSIDERATION**

The Bank has not adopted a formalized process of orientation for new Board members although all directors are provided with a Directors' Manual, outlining key governance information and reference material. New directors are also given the opportunity to meet with senior management and other directors. Also, when circumstances warrant, specific meetings are held for all directors to cover new areas of significance that could or will impact the directors in fulfilling their responsibilities. For example, during fiscal 2004, a seminar on corporate governance was held with an outside presenter and after acquiring Canadian Direct Insurance, an orientation session was held by the senior management of Canadian Direct at its head office in New Westminster, B.C.

In order to carry out its responsibilities the Board must have timely access to information which is available via discussions with the Bank's senior management and through a comprehensive information package sent out prior to each board meeting which includes the agenda, minutes of previous meetings and supporting documentation for specific agenda items. The Board has also put in place a policy providing for individual directors to engage outside advisors if the circumstances are warranted.

The Bank is committed to ensuring quality and timely information is available to all shareholders. The Bank has adopted a corporate disclosure (communication) policy which is reviewed annually as well as a policy to handle complaints or concerns regarding accounting, internal accounting controls or auditing matters. Quarterly and annual financial packages are reviewed by an internal Disclosure Committee prior to being recommended for Board approval and CEO/CFO bare certification of financial statements. Inquiries and requests for information from shareholders and potential investors receive prompt attention from an appropriate officer. The Bank's quarterly earnings conference calls with analysts and institutional investors are broadcast live, via the Internet, and archived on the Bank's web site for sixty days. The calls are also accessible on a live and recorded basis via telephone to interested retail investors, the media and members of the public. The Bank also includes all significant disclosure documents on the investor relations page of its web site at: [www.cwbank.com/investor\\_relations/default.asp](http://www.cwbank.com/investor_relations/default.asp). The CEO, CFO and other members of senior management also meet periodically with financial analysts and institutional investors.

The Bank has engaged an independent Ombudsman to receive complaints from banking clients who are unable to obtain satisfaction from the internal complaint handling process.

#### **CONCLUSION**

The Bank's corporate governance approach is in compliance with the TSX guidelines. It will continue to develop over time with the Corporate Governance & Human Resources Committee playing a key role in monitoring, developing and recommending to the Board on governance issues as warranted.

As noted above, a table detailing the Bank's compliance with the TSX guidelines is also provided in the management information circular available on SEDAR at [www.sedar.com](http://www.sedar.com).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Forward-looking Statements

From time to time we make written and verbal forward-looking statements about our objectives and strategies, operations and targeted financial results. These may be included in our Annual Reports, regulatory filings, reports to shareholders, press releases, corporate presentations and other communications. These forward-looking statements are inherently subject to risks and uncertainties beyond the Bank's control, including, but not limited to, fluctuations in interest rates and currency values, changes in economic and political conditions, legislative or regulatory developments, technological developments and competition. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements and the reader is therefore cautioned not to place undue reliance on these statements. We do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by us or on our behalf.

## Taxable Equivalent Basis (teb)

Most banks analyze revenue on a taxable equivalent basis to permit uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statement of income) includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividend received is significantly lower than would apply to a loan or security of the same amount. The adjustment to taxable equivalent basis of \$3.9 million (2003 – \$3.0 million) increases interest income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory rate. The taxable equivalent basis does not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other banks. Total revenues, net interest income and income taxes are discussed on a teb basis throughout this Management's Discussion and Analysis.

## Canadian Banking Industry

Comparative performance indicators of the Canadian banking industry referred to in this document are obtained from the published results of the other publicly-traded Schedule I banks (Bank of Montreal, Canadian Imperial Bank of Commerce, Laurentian Bank of Canada, National Bank of Canada, Royal Bank Financial Group, Scotiabank and TD Bank Financial Group). Readers are cautioned that the banks in this industry group have operations and asset size that may not be directly comparable to each other or to Canadian Western Bank.



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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS PROFILE AND STRATEGY

Canadian Western Bank (CWB or the Bank) celebrated its 20th anniversary during the year, marking a long history of financial growth and excellence in customer service. This history includes many milestone accomplishments including 66 consecutive quarters of profitability, strong earnings growth and well over a decade of double-digit loan growth and low loan losses. CWB is the largest publicly-traded Schedule I chartered bank headquartered in and regionally focused on western Canada and today serves many thousands of small to medium sized businesses and individuals across the four western provinces in its signature Think Western® style. CWB's primary focus continues to be its core retail and mid-market commercial banking business in Western Canada. Trust services, including self-directed RRSPs and RRI's, as well as corporate and group trust services, are provided to independent financial advisors, corporations and individuals through CWB's wholly owned Canadian Western Trust Company (CWT). Stock transfer and trustee services are provided to public companies and income trusts through recently acquired Valiant Trust Company.

CWB significantly expanded its financial services at the end of the second quarter of 2004 through the acquisition of Canadian Direct Insurance Incorporated (CDI). The acquisition of CDI further diversifies the Bank's operations and adds a third pillar of the financial services industry. CDI provides personal home, auto and travel insurance products directly to consumers in British Columbia and Alberta.

CWB's mission is to be known and respected as Canada's western bank, providing western Canadians and other selected markets with a preferred source of individual and commercial financial services, delivered in its signature Think Western® style. The fundamental objectives are to provide shareholders with a sound and profitable return, clients with value, service and stability, employees with a positive and rewarding work environment while contributing to the communities in which CWB operates. CWB plans to achieve its mission through the following strategic priorities:

- Build upon the Think Western® brand of service by ensuring CWB employees continue to manage customer relationships in the responsive and friendly CWB manner. CWB believes that experienced, knowledgeable and dedicated employees with a Think Western® attitude are critical to building customer loyalty.
- Ensure growth is focused, strategic and ultimately enhances shareholder value.
- Reinforce industry leadership in cost efficiency, return on assets and credit losses by maintaining low cost delivery capabilities, mitigating risks and ensuring continued rigorous credit risk management.
- Leverage core profitability by the generation of lower cost deposits through the branch network and CWT.
- Grow non-interest revenues from a continued emphasis on retail banking, trust and insurance products and services, as well as through strategic acquisitions.
- Maximize potential opportunities from recent acquisitions through co-branding, cross selling and expansion into new markets (e.g. expand stock transfer and corporate trustee services to Vancouver and Edmonton).
- Increase ROE through the expansion of CWB's key business strategies and by improving the mix of regulatory capital between dilutive and non-dilutive capital required to support growth.
- Maintain and reinforce CWB's reputation and public confidence through enhanced communication, diligence in corporate governance practices and high standards in corporate reporting and accountability.

CWB's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars.

The following pages contain management's discussion of the financial performance of the CWB Group as well as a discussion of the performance of each operating segment and a summary of quarterly and fourth quarter results.

## GROUP FINANCIAL PERFORMANCE

### OVERVIEW

#### Highlights of 2004

- Net income was a record \$44.2 million, up 16% over the prior year.
- Total revenues (teb) increased 15%, with net interest income (teb) up 9% and other income up 43%.
- Loans increased 11%, reflecting fifteen consecutive years of double-digit loan growth.
- Credit quality continued to be strong and consistent.
- Branch and trust deposits increased 15%, with the lower cost demand and notice component up 30%.



**Table 1 - Selected Annual Financial Information**  
(\$ thousands, except per share amounts)

	2004	2003	2002	Change from 2003	
				\$	%
<b>Key Performance Indicators</b>					
Net income	\$ 44,161	\$ 38,193	\$ 29,612	\$ 5,968	16 %
<b>Earnings per share</b>					
Basic	\$ 3.30	\$ 2.98	\$ 2.34	\$ 0.32	11 %
Diluted	\$ 3.00	\$ 2.69	\$ 2.14	\$ 0.31	12 %
Provision for credit losses as a percentage of average loans	0.25%	0.25%	0.26%		0 bp <sup>(3)</sup>
Efficiency ratio <sup>(2)</sup> (expenses to revenues) (teb) <sup>(1)</sup>	49.8%	46.3%	50.7%		350 bp
Efficiency ratio	51.1%	47.4%	51.8%		370 bp
Return on common shareholders' equity	12.9%	12.9%	11.2%		0 bp
Return on average total assets	0.97%	0.95%	0.84%		2 bp
<b>Other Financial Information</b>					
Total revenues (teb) <sup>(1)</sup>	\$ 153,335	\$ 132,981	\$ 113,420	\$ 20,354	15 %
Total revenues	\$ 149,437	\$ 129,989	\$ 110,971	\$ 19,448	15 %
Total assets	\$ 4,918,895	\$ 4,343,972	\$ 3,828,162	\$ 574,923	13 %
Subordinated debentures	\$ 110,600	\$ 121,951	\$ 57,126	\$ (11,351)	(9)%
Dividends <sup>(4)</sup>	\$ 0.75	\$ 0.46	\$ 0.40	\$ 0.29	63 %

<sup>(1)</sup> See page 18 for a discussion of teb.

<sup>(2)</sup> A decrease in the ratio reflects improved efficiency.

<sup>(3)</sup> Basis points.

<sup>(4)</sup> The dividend policy was amended to be quarterly instead of semi-annual during the first quarter of fiscal 2004. The dividend rate for fiscal 2004 appears unusually high as it includes the last semi-annual dividend of \$0.30 per share paid in the first quarter and quarterly dividends of \$0.15 per share paid in subsequent quarters.

Net income for 2004 was a record \$44.2 million, an increase of 16% over 2003. The increase reflects 15% growth in total revenues (teb) driven by solid loan growth and strong growth in lower cost branch deposits as well as the contribution of Canadian Direct Insurance Incorporated (CDI) and Valiant Trust Company, both of which were acquired in April 2004. The 2004 results also reflect a tax benefit of \$1.6 million resulting from the redemption of tax advantaged preferred shares in which CWB had an investment. Credit quality remained strong and the provision for credit losses as a percentage of average loans was 25 basis points in 2004 and has averaged 24 basis points over the last five years. The efficiency ratio (teb) at 49.8% continued to lead the Canadian banking

industry. Diluted earnings per share were \$3.00 in 2004 compared to \$2.69 last year, an increase of 12%. Return on shareholders' equity and return on assets were 12.9% and 0.97% respectively compared to 12.9% and 0.95% last year.

Total assets increased 13% from one year ago to reach \$4,919 million. Loans increased by \$404 million, or 11% as the Bank's long history of double-digit annual loan growth continued. Branch generated deposits increased 15%, with the lower cost demand and notice component up 30%. At October 31, 2004, branch deposits represented 57% of total deposits compared to 54% one year ago.

### Outlook for Overall Financial Performance

The overall outlook for fiscal 2005 is continued strong financial performance, with positive economic conditions in Western Canada and modestly higher interest rate levels. The strength of the Canadian dollar will affect some borrowing customers positively and others negatively, but overall it is not expected to have a significant impact on the Bank's credit quality or growth strategy. A continued emphasis on retail initiatives, together with the significant branch development projects completed in fiscal 2004 and the contribution of CDI are expected to further strengthen the Bank's ability to drive growth and increase market recognition. Targets established for 2005 include net income growth of 15%, total revenue growth of 15-18% and loan growth of 12%.

## NET INTEREST INCOME

### Highlights of 2004

- Net interest income (teb) was \$117 million, an increase of 9% over the prior year.
- Net interest margin (teb) was 2.57%, compared to 2.68% in 2003.

Net interest income is the difference between interest and dividends earned on assets and interest expensed on deposits and other

liabilities, including debentures. Net interest margin is net interest income as a percentage of average total assets.

Table 2 - Net Interest Income (teb)<sup>(1)</sup>  
(\$ thousands)

	2004				2003			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
<b>Assets</b>								
Cash, securities and deposits with regulated financial institutions	\$ 716,759	16%	\$ 21,982	3.07%	\$ 526,489	13%	\$ 19,319	3.67%
Securities purchased under resale agreements	65,503	1	1,504	2.30	61,468	1	1,807	2.94
<b>Loans</b>								
Residential mortgages	655,980	14	36,007	5.49	631,511	16	37,435	5.93
Other loans	3,039,208	67	182,590	6.01	2,756,634	69	180,801	6.56
	3,695,188	82	218,597	5.92	3,388,145	85	218,236	6.44
Total interest bearing assets	4,477,450	98	242,083	5.41	3,976,102	99	239,362	6.02
Other assets	90,062	2	—	0.00	45,810	1	—	0.00
<b>Total Assets</b>	<b>\$ 4,567,512</b>	<b>100%</b>	<b>\$ 242,083</b>	<b>5.30%</b>	<b>\$ 4,021,912</b>	<b>100%</b>	<b>\$ 239,362</b>	<b>5.95%</b>
<b>Liabilities</b>								
<b>Deposits</b>								
Demand	\$ 162,704	4%	\$ —	0.00%	\$ 115,392	3%	\$ —	0.00%
Notice	599,144	13	6,841	1.14	444,778	11	6,245	1.40
Fixed term	3,214,867	70	111,246	3.46	3,014,956	75	121,521	4.03
	3,976,715	87	118,087	2.97	3,575,126	89	127,766	3.57
Other liabilities	134,789	3	—	0.00	83,700	2	—	0.00
Subordinated debentures	114,688	3	6,760	5.89	67,372	2	3,941	5.85
Shareholders' equity	341,320	7	—	0.00	295,714	7	—	0.00
<b>Total Liabilities and Equity</b>	<b>\$ 4,567,512</b>	<b>100%</b>	<b>\$ 124,847</b>	<b>2.73%</b>	<b>\$ 4,021,912</b>	<b>100%</b>	<b>\$ 131,707</b>	<b>3.27%</b>
<b>Total Assets/Net Interest Income</b>	<b>\$ 4,567,512</b>		<b>\$ 117,236</b>	<b>2.57%</b>	<b>\$ 4,021,912</b>		<b>\$ 107,655</b>	<b>2.68%</b>

<sup>(1)</sup> See page 18 for a discussion of teb.

In 2004, net interest income (teb) increased by \$9.6 million (9%), primarily due to an increase of \$501 million (13%) in average interest bearing assets, partially offset by a decrease in the net interest margin (teb) to 2.57% from 2.68%. The decrease in margin was primarily due to an increase in the mix of cash and securities (securities, deposits with regulated financial institutions and securities purchased under resale agreements) to 17% of total average assets this year compared to 14% in 2003. Cash and securities, which are primarily held for liquidity purposes, generate a lower yield than the other interest-bearing asset, loans. Liquidity was increased early in the year to accommodate heavier deposit maturities in January through April and again later in the year to accommodate heavier maturities in October. Also, negatively impacting margin was an increase in non-interest earning assets

with the acquisition of CDI and a decline in short-term interest rates. The prime rate averaged 4.05% compared to 4.69% last year.

Partially offsetting these negative factors impacting margin was strong growth in lower cost demand and notice deposits, which are generated by the Bank's branch network and Canadian Western Trust. The average balance of these deposits increased \$202 million (36%) in 2004 and represented 17% of total funding sources (liabilities and equity) compared to 14% in 2003. The margin was also positively impacted by proactive management of interest risk, as the Bank's sensitivity to a change in interest rates was reduced early in 2004 in anticipation of declining interest rates. While the margin decreased, net interest spread on loans (yield earned on loans less the cost of deposits and subordinated debentures) improved to 2.80% from 2.75% in the prior year.



## Outlook for Net Interest Income

In 2005, net interest income is expected to increase in response to the targeted loan growth of 12%. The net interest margin is also expected to increase slightly over 2004 based on modestly higher interest rate levels and a continued emphasis on generating lower cost deposits which will allow the Bank to gain leverage from core profitability.

## OTHER INCOME

### Highlights of 2004

- Other income increased 43% (\$10.8 million) over the prior year.
- CDI and Valiant Trust, both acquired at the end of April 2004, contributed \$9.7 million of the increase.
- Other income represented 24% of total revenues (teb) compared to 19% in 2003.

*Table 3 - Other Income*  
(\$ thousands)

	2004	2003	Change from 2003	
			\$	%
Insurance				
Net earned premiums and other	\$ 30,761	\$ —	\$ 30,761	100%
Net claims, adjustment and policy acquisition expenses	(22,865)	—	(22,865)	100
	7,896	—	7,896	100
Credit related	13,641	13,099	542	4
Trust services	6,208	4,017	2,191	55
Retail services	5,066	4,679	387	8
Gains on sales of securities	1,685	2,095	(410)	(20)
Foreign exchange	1,332	1,279	53	4
Other <sup>(1)</sup>	271	157	114	73
<b>Total Other Income</b>	<b>\$ 36,099</b>	<b>\$ 25,326</b>	<b>\$ 10,773</b>	<b>43%</b>

<sup>(1)</sup> Includes gains/losses on land, buildings and equipment disposals and other miscellaneous non-interest revenues.

Other income was \$36.1 million, an increase of 43% (\$10.8 million) over 2003. A significant portion of the increase was due to the contributions of CDI and Valiant Trust which were acquired at the end of April 2004. CDI generated revenues (net of claims, adjustment and policy acquisition costs) of \$7.9 million and Valiant had revenues of \$1.8 million which are included in trust services fees. Credit, retail, trust (excluding Valiant) and foreign exchange fees had modest growth of between 4% and 9%.

Gains on the sale of securities decreased 20% over the prior year. At October 31, 2004, there were unrealized gains in the securities portfolio of \$533,000 compared to \$2.7 million at the end of the prior year. The change in unrealized value from the prior year reflects the

sale of certain investments and changes in longer term interest rates. Approximately \$900,000 of the 2004 gain was a non-cash gain that resulted from the acquisition of Bank Northwest (a U.S. regional bank in which CWB had an investment) by another regional U.S. bank in exchange for its shares.

Other income as a percentage of total revenue (net interest income and other income) increased to 24% in 2004 from 19% in the prior year. The improved diversification of revenues was primarily due to the impact of CDI and Valiant. These acquisitions are expected to contribute to further growth and diversification of CWB's non-interest revenues.

## Outlook for Other Income

Other income is expected to again show strong growth in 2005, reflecting the full year impact of CDI and Valiant Trust as well as the strong growth potential for these companies. Strong growth is also expected in all other areas except securities gains. The enhancement of banking related retail services will continue to be a focus in 2005, with the objective of increasing fee income through expanded product offerings, additional transactional deposit accounts and the generation of new business, all supported by the development of the branch network.

## NON-INTEREST EXPENSES AND EFFICIENCY

### Highlights of 2004

- Continued to lead the Canadian banking industry with an efficiency ratio (teb) of 49.8%.
- Non-interest expenses increased \$14.8 million over the prior year, with CDI and Valiant accounting for 42% of the increase. Excluding the impact of CDI and Valiant, expenses increased 13%

Table 4 - Non-interest Expenses and Efficiency Ratio  
(\$ thousands)

	2004	2003	Change from 2003	
			\$	%
Salaries and Employee Benefits				
Salaries	\$ 38,649	\$ 31,916	\$ 6,733	21%
Employee benefits	7,349	5,764	1,585	27
	45,998	37,680	8,318	22
Premises				
Rent	6,450	4,985	1,465	29
Depreciation	1,391	1,084	307	28
Other	1,160	1,212	(52)	(4)
	9,001	7,281	1,720	24
Equipment and Furniture				
Depreciation	2,565	2,004	561	28
Other	2,357	1,749	607	35
	4,921	3,753	1,168	31
General				
Marketing and business development	2,054	1,935	119	6
Capital and business taxes	2,205	1,885	320	17
Professional fees and services	3,024	1,796	1,228	68
Postage and stationery	2,072	1,435	637	44
Banking charges	1,132	1,074	58	5
Travel	1,245	899	346	39
Regulatory costs	807	758	49	6
Communications	663	552	111	20
Other	3,278	2,518	760	30
	16,480	12,852	3,628	28
Total Non-interest Expenses	\$ 76,400	\$ 61,566	\$ 14,833	24%

### Efficiency Ratio <sup>(1)</sup> (teb)

49.8% 46.3%

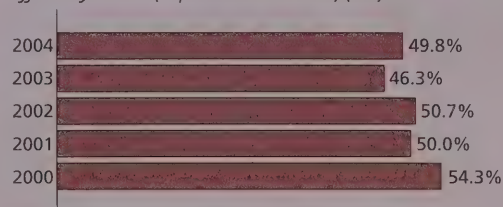
<sup>(1)</sup> Non-interest expenses as a percentage of total revenues (net interest income (teb) plus other income).

Non-interest expenses increased \$14.8 million (24%) to \$76.4 million in 2004. The increase reflects the additional operating expenses (\$6.3 million) and amortization of intangible assets (\$271,000) associated with CDI and Valiant Trust, additional expenses from the Bank's seven significantly upgraded, relocated and new branch locations (\$2.5 million), and an increase in certain human resource related costs (\$1.1 million), including relocation expenses and non-cash stock-based compensation. In 2004, non-cash stock-based compensation totalled \$907,000, an increase of \$655,000 over the prior year. Excluding the impact of these items, non-interest expenses were up \$4.7 million (8%) over the prior year. The remaining increase reflects increased salary levels as a result of business growth, annual salary adjustments and various other initiatives.

The efficiency ratio (teb) was 49.8% in 2004 compared to 46.3% in the prior year. The operations of CDI and Valiant added approximately 80 basis points to the ratio. Despite the increase, CWB

continues to lead the Canadian banking industry in this measure. Non-interest expenses as a percentage of average assets were 1.67%, up from 1.53% in 2003.

### Efficiency Ratio <sup>(1)</sup> (expenses to revenues) (teb)



<sup>(1)</sup> A decrease in the ratio reflects improved efficiency.



## Outlook for Non-interest Expenses and Efficiency

The significant branch development program completed in 2004, as well as significant additional stock-based compensation charges and various other initiatives are expected to result in an increase in non-interest expenses of approximately 10%. The full year impact of CDI and Valiant Trust in 2005 are expected to result in an additional increase in non-interest expenses of approximately 9%.

The revenue and expense structure of CDI, which is reflective of insurance operations, will negatively impact the efficiency ratio by an estimated 200 basis points in fiscal 2005. Despite the impact of CDI and the other items noted above, CWB expects to continue to lead the Canadian banking industry with an efficiency ratio (teb) of 50.0% or less.

## INCOME AND CAPITAL TAXES

The provision for income taxes (teb) was 34.6% in 2004, a decrease from 39.2% in the prior year as a result of reductions in the Federal and Alberta tax rates and the previously noted \$1.6 million tax benefit from the redemption of preferred shares. The provision before the teb adjustment was 30.6% this year compared to 36.2% in 2003.

Future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. The future income tax asset relates primarily to the general allowance for credit losses. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected

to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change. There were reductions in the Federal and Alberta tax rates which resulted in a revaluation of net future income tax assets and a corresponding charge to income tax expense of \$108,000 in 2004.

Capital losses of \$11.8 million (2003 - \$11.9 million) are available to apply against future capital gains and have no expiry date. The tax benefit of these capital losses has not been recognized.

Table 5 - Capital Taxes  
(\$ thousands)

	Tax Rate	Allocation		2004	2003	Change from 2003	
						\$	%
British Columbia	1.00%	40%	\$	1,472	\$ 1,289	\$ 183	14%
Alberta	n/a	54%		-	-	-	-
Saskatchewan	0.70%	4%		122	131	(9)	(7)
Manitoba	3.00%	2%		399	288	111	39
Total Capital Taxes			\$	1,993	\$ 1,708	\$ 285	17%

Capital taxes for 2004 totalled \$2.0 million, an increase of 17% over 2003. The increase was primarily attributable to increased capital associated with the retention of earnings and also reflects the expansion of the Province of Manitoba's capital tax base to include subordinated debentures.

The goods and services tax (GST) carries with it a significant cost to the Bank, as it does to all financial institutions, because the majority

of the Bank's activities, except leasing and trust services, are exempt under GST legislation and thus GST cannot be charged and collected from customers as occurs in the majority of Canadian businesses. As a result, the ability to recover the GST paid on most purchased goods and services is lost.

## Outlook for Taxes

The effective tax rate (teb) is expected to be in the range of 34 - 36% in 2005, reflecting the full year impact of the Federal and Alberta income tax rate reductions and a further reduction in the large corporation tax rate. Provincial capital tax is expected to increase modestly due to the retention of earnings and the additional subordinated debentures issued in November 2004.

## LOANS

### Highlights of 2004

- Loans increased 11%, marking CWB's fifteenth consecutive year of double-digit loan growth.
- Growth in commercial and industrial loans of 18% and 19%, respectively.
- Energy loans decreased \$45 million.
- Launched a new residential mortgage initiative.

**Table 6 - Outstanding Loans by Type and by Provincial Location of Security**  
(\$ millions)

	British Columbia	Alberta	Saskatchewan	Manitoba	Other Provinces	Total <sup>(1)</sup>	Composition Percentage
<b>October 31, 2004</b>							
<b>Loans to Individuals</b>							
Residential mortgages <sup>(2)</sup>	\$ 337	\$ 277	\$ 60	\$ 15	\$ 12	\$ 701	18%
Other	48	71	13	3	—	135	3
	385	348	73	18	12	836	21
<b>Loans to Businesses<sup>(3)</sup></b>							
Commercial	393	596	18	59	65	1,131	29
Construction and real estate <sup>(4)</sup>	442	603	42	65	3	1,155	29
Industrial	257	405	22	9	32	725	18
Energy	—	124	—	—	—	124	3
	1,092	1,728	82	133	100	3,135	79
<b>Total Loans</b>	<b>\$ 1,477</b>	<b>\$ 2,076</b>	<b>\$ 155</b>	<b>\$ 151</b>	<b>\$ 112</b>	<b>\$ 3,971</b>	<b>100%</b>
<b>Composition Percentage</b>	<b>37%</b>	<b>52%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>100%</b>	
<b>October 31, 2003</b>							
<b>Loans to Individuals</b>							
Residential mortgages <sup>(2)</sup>	\$ 326	\$ 246	\$ 62	\$ 17	\$ 14	\$ 665	19%
Other	42	61	13	3	0	119	3
	368	307	75	20	14	784	22
<b>Loans to Businesses<sup>(3)</sup></b>							
Commercial	351	471	13	63	56	954	27
Construction and real estate <sup>(4)</sup>	355	585	41	63	5	1,049	29
Industrial	234	325	19	8	21	607	17
Energy	—	165	4	—	—	169	5
	940	1,546	77	134	82	2,779	78
<b>Total Loans</b>	<b>\$ 1,308</b>	<b>\$ 1,853</b>	<b>\$ 152</b>	<b>\$ 154</b>	<b>\$ 96</b>	<b>\$ 3,563</b>	<b>100%</b>
<b>Composition Percentage</b>	<b>37%</b>	<b>52%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>100%</b>	

<sup>(1)</sup> This table does not include securities purchased under resale agreements or an allocation of the allowance for credit losses and deferred revenue and premiums.

<sup>(2)</sup> Includes single and multi-unit residential mortgages.

<sup>(3)</sup> Corporate loans (described below) are included in Loans to Businesses based on the security of the specific loan and the nature of the borrower's business.

<sup>(4)</sup> Includes commercial term mortgages and project (interim) mortgages.

Loans, excluding securities purchased under resale agreements and the allowance for credit losses, increased \$407 million (11%) to total \$3,971 million at the end of 2004. The growth was entirely organic. There was strong growth in most areas with the notable exception being energy loans which decreased \$45 million (27%) in 2004. Continued positive cash flows in the energy sector, along with acquisitions, amalgamations and capital market financings have resulted in some loans being repaid or reduced as well as making it more challenging to generate new growth.

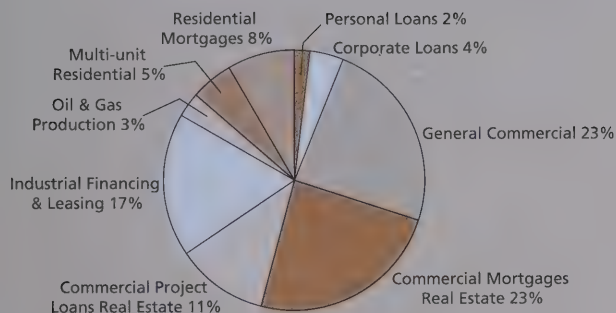
In 2004, a new residential mortgage initiative was launched. The experience to date has been encouraging and it appears that an ongoing profitable niche has been identified for CWB in this niche.

The mix of loan type has remained relatively consistent year-over-year with the notable changes being commercial loans increasing to 29% of the portfolio from 27% one year ago, offset by energy loans decreasing to 3% from 5%. The location of loan security has also remained consistent year-over-year with 52% and 37% of the security based in Alberta and British Columbia, respectively.

Since 1999 the Bank has developed a portfolio of loans, identified internally as corporate loans, through participation in selected syndications, the majority of which have been structured and led by the major Canadian banks. This initiative has afforded the opportunity to participate in larger, investment grade credits as well as providing a degree of geographic diversification. At October 31, 2004 the corporate loan portfolio totalled \$140 million (2003 - \$116 million).



### Loans by Portfolio



### Outlook for Loans

Consistent and strong loan growth of 12% is targeted for 2005, supported by a positive economic outlook for Western Canada, the Bank's residential mortgage initiative and the branch development initiatives completed in 2004.

## CREDIT QUALITY

### Highlights of 2004

- Credit quality remained strong.
- Provision for credit losses was stable at 25 basis points of average loans.
- Gross impaired loans were 62 basis points of average loans, unchanged from 2003 and at the low end of the expected range.
- Total allowance for credit losses represented 158% of gross impaired loans at year end.

### Impaired Loans

As shown in Table 7 gross impaired loans totalled \$24.9 million and represented 62 basis points of outstanding loans, consistent with

2003. The gross impaired loan portfolio was maintained at the historically low level achieved in 2003.

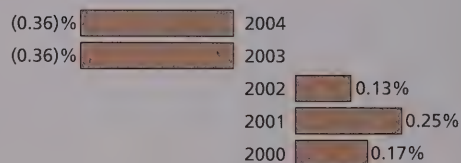
*Table 7 - Change in Gross Impaired Loans*  
(\$ thousands)

	2004	2003	Change from 2003
Gross impaired loans, beginning of year	\$ 22,241	\$ 35,077	\$ (12,836)
Net new formations (reductions)	8,084	(8,596)	16,680
Write-offs, net of recoveries	(5,435)	(4,240)	(1,195)
Total	\$ 24,890	\$ 22,241	\$ 2,649
Gross Impaired Loans as a Percentage of Total Loans	0.62%	0.62%	—

A stable provision for credit losses at 25 basis points of average loans and securities purchased under resale agreements together with lower impaired loans has resulted in the allowance for credit losses exceeding gross impaired loans over the past two years. At October 31, 2004, the allowance for credit losses exceeded gross impaired loans by \$14.4 million (2003 - \$13.1 million), which represented negative 36 basis points (2003 - negative 36 basis points) of net loans outstanding (see graph).

The portfolio is reviewed regularly with credit decisions undertaken on a case by case basis to provide early identification of possible adverse trends. Loans that have become impaired are monitored closely with regular quarterly, or more frequent, review of each loan and the realization plan.

#### Net Impaired Loans as a Percentage of Net Loans Outstanding



#### Outlook for Impaired Loans

The dollar level of gross impaired loans is expected to fluctuate over time within the Bank's range of acceptable levels as loans become impaired and are subsequently resolved. The overall outlook for 2005 remains consistent with the 2004 experience with no expectation of adverse change in the general trend of the portfolio.

#### Allowance for Credit Losses

Table 8 shows the year over year change in the allocation of the allowance for credit losses to specific provisions by category of impaired loans and to the general allowance for credit risk.

Table 8 - Allowance for Credit Losses

(\$ thousands)

	2004 Opening Balance	Write-offs, net of Recoveries <sup>(1)</sup>	Provision for Credit Losses	2004 Ending Balance
<b>Specific Provisions</b>				
Consumer and personal	\$ 503	\$ 359	\$ 242	\$ 386
Real estate	841	(2)	651	1,494
Industrial	2,849	2,486	972	1,335
Other	3,614	2,592	6,267	7,289
	7,807	5,435	8,132	10,504
<b>General Allowance</b>	27,558	—	1,258	28,816
<b>Total</b>	\$ 35,365	\$ 5,435	\$ 9,390	\$ 39,320

<sup>(1)</sup> Recoveries in 2004 totalled \$310 (2003 - \$87).

The allowance for credit losses is maintained to absorb both identified and unidentified losses in the loan portfolio and consists of \$10.5 million in specific allowances and \$28.8 million in the general allowance for credit risk. Specific allowances include the accumulated allowances for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes allowances for future losses inherent in the portfolio that are not presently identifiable on an account by account basis. The general allowance represents 72 basis points of gross outstanding

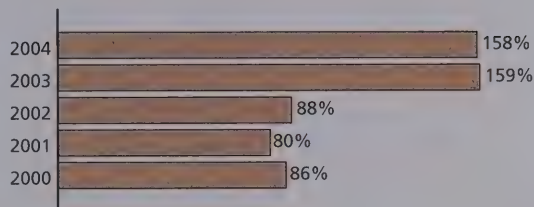
loans (77 basis points in 2003) and 72 basis points of risk-weighted assets (78 basis points in 2003). This compares favourably with the Bank's five year loan loss average of 24 basis points (ten year average - 25 basis points) which is based on the annual charges to the income statement. The five year loan loss average based only on net new specific provisions (i.e. excluding the annual increase or decrease in the general allowance for credit risk) was 19 basis points (ten year average - 17 basis points).



The allowance as a percentage of gross impaired loans (coverage ratio) remained consistent at 158% (2003 – 159%). An assessment of the adequacy of the general allowance is conducted quarterly and measured against the five and ten year loan loss averages. In addition, a method of applying a progressive (increasing with higher risk) loss ratio range against groups of loans of a common risk rating is utilized to test the general allowance adequacy. The general allowance is expected to increase in strong economic times and decrease in weaker economic times as allowances are allocated to specific credits.

Policies and methodology governing the management of the general allowance are in place. The loan portfolio is delineated through the assignment of internal risk ratings to each borrower. The rating is based on assessments of key evaluation factors for the nature of the exposure applied on a consistent basis across the portfolio. The rating system has twelve levels of risk and ratings are updated at least annually for all loans, with the exception of consumer loans and single-unit residential mortgages.

*Allowance for Credit Losses as a Percentage of Gross Impaired Loans*



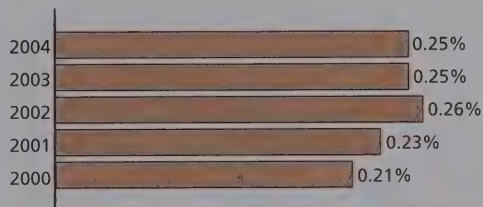
#### **Outlook for Allowance for Credit Losses**

Specific allowances will continue to be determined on an account-by-account basis and reviewed quarterly. Further development of methodology to support the testing of the adequacy of the general allowance will continue during fiscal 2005. Significant change to the level of the general allowance is not anticipated based on expanded methodology, assuming no material change in the portfolio's credit quality.

#### **Provision for Credit Losses**

The provision for credit losses represented 25 basis points of average loans in 2004, consistent with the five year average of 24 basis points and reflecting the strong credit quality of the portfolio. The Bank has a long history of strong credit quality and low loan losses both of which compare favourably to the Canadian banking industry. External factors that may impact Western Canada and the environments in which the Bank's customers operate are continually analyzed. The outlook for the Western Canadian economy is positive and the quality of the loan portfolio is expected to remain strong.

*Provision for Credit Losses as a percentage of Average Loans (10 year average 0.25%)*



#### **Outlook for Provision for Credit Losses**

The provision for credit losses is expected to be consistent at approximately 25 basis points of average loans in 2005.

## Diversification of Portfolio

The following table illustrates the diversification in lending operations by industry sector.

**Table 9 - Total Advances Based on Industry Sector<sup>(1)</sup>**  
% at October 31

	2004	2003
Real estate operations	26%	25%
Construction	18	19
Consumer loans and residential mortgages <sup>(2)</sup>	10	10
Transportation and storage	8	8
Hotel/motel	6	6
Oil and gas (production)	4	5
Finance and insurance	4	4
Manufacturing	3	4
Logging/forestry	3	3
Oil and gas (service)	3	3
Other services	3	3
Retail trade	3	3
Wholesale trade	3	2
Other	6	5
Total	100%	100%

<sup>(1)</sup> Table is based on Standard Industrial Classification (SIC) codes.

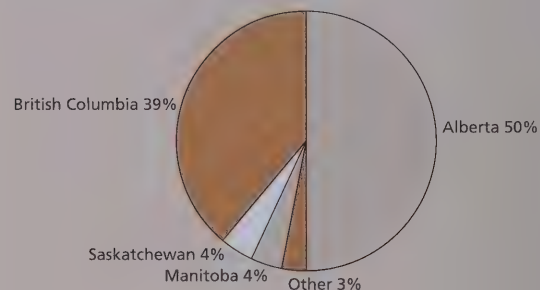
<sup>(2)</sup> Residential mortgages in this table include only single-family properties.

<sup>(3)</sup> The Bank does not engage in direct lending to the agricultural sector.

Management of the loan portfolio includes the strategy of focusing on areas of demonstrated lending expertise and avoiding high concentrations in one geographic area or industry sector. The portfolio is well diversified with a mix of commercial and personal business. Industrial lending units are set up within branches or as

Total Advances Based on Location of Security (also see Table 6)

**Geographical Distribution of Loans<sup>(1)</sup>**



<sup>(1)</sup> Includes undrawn lines of credit and excludes securities purchased under resale agreements.

stand alone operations, while oil and gas production lending is conducted by specialists in the Calgary market. In addition to these areas, real estate divisions are established in the major centres in which the Bank operates.

## Outlook for Diversification of Portfolio

The portfolio is expected to remain well diversified by both industry sector and geographical location.

## DEPOSITS

### Highlights of 2004

- Lower cost personal and business deposits increased a very strong 30%.
- Branch generated deposits improved to 57% of total deposits from 54% one year ago.

**Table 10 - Deposits**  
(\$ thousands)

	2004		2003	
	Amount	% of Total	Amount	% of Total
Canadian Currency				
Personal chequing and savings	\$ 255,042	6%	\$ 206,710	5%
Business demand and savings	572,880	13	431,218	11
Fixed term:				
Under \$100	2,012,221	47	2,020,207	53
\$100 and over	705,298	17	601,215	16
Registered retirement products	686,823	16	533,647	14
	4,232,264	99	3,792,997	99
Foreign Currency (Canadian equivalent)	35,524	1	26,753	1
Total Deposits	\$ 4,267,788	100%	\$ 3,819,750	100%

Deposits totalled \$4,268 million at October 31, 2004, an increase of \$448 million (12%) over the prior year. All sources of deposits increased in real dollar terms in 2004 with very strong growth of 33% in lower cost business

demand and savings deposits and 23% growth in personal chequing and savings deposits. The lower cost personal and business deposits accounted for 19% of total deposits compared to 16% one year ago.

**Table 11 - Deposits by Source**  
(as a percentage of total deposits at October 31)

	2004	2003	2002	2001	2000
Branches	57%	54%	53%	53%	49%
Deposit agents	42%	44%	45%	45%	48%
Wholesale	1%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%

Deposits are primarily generated from the branch network (including Canadian Western Trust) and an agent network. Increasing deposits generated by the branch network, and in particular the lower cost component, is a key objective due to the positive impact on earnings as well as the underlying relationship that is developed with the

customer. Agent deposits, which are primarily rate driven, are more expensive because a commission is paid, but this added cost is countered by a reduced need for a more extensive branch network. In 2004, branch and trust generated deposits increased 15% and improved to 57% of total deposits from 54% one year ago.

### Outlook for Deposits

Increasing branch raised deposits (including through CWT) will continue to be a focus of ongoing retail initiatives in 2005, with particular emphasis on the lower cost notice and demand component which has associated transactional fee income and provides significant leverage to core profitability through lower funding costs.

## OTHER ASSETS AND OTHER LIABILITIES

The expansion into insurance operations through the acquisition of CDI in April 2004 resulted in a marked increase in other assets and other liabilities. At year end, other assets totalled \$141 million (2003 - \$48 million). CDI's insurance related other assets were \$56 million and consisted primarily of instalment premiums receivable as well as reinsurers' share of unpaid claims and unearned premiums. Other assets at October 31, 2004 also included goodwill and intangible assets of \$6.9 million and \$4.3 million, respectively, which were recognized with the acquisitions of CDI and Valiant Trust.

In 2004 the Bank completed a significant branch development program that included two new branches, four relocated and significantly upgraded branches and one expanded branch. This program contributed to a \$5.5 million increase in land, buildings and equipment which totalled \$18.5 million at October 31, 2004. Also contributing to the increase was further investments in computer equipment (\$1.2 million) including enhancements to the banking and trust systems.

Other liabilities totalled \$173 million at October 31, 2004 (2003 - \$86 million). CDI's insurance related other liabilities were \$90 million and consisted primarily of unearned premiums and provisions for unpaid claims and adjustment expenses.



## LIQUIDITY MANAGEMENT

A schedule outlining the consolidated securities portfolio at October 31, 2004 is provided in Note 4 to the consolidated financial statements. A conservative policy is maintained in this area with:

- all investments, other than those securities categorized as “preferred shares” and “other marketable securities”, limited to high quality debt securities and short-term money market instruments to meet objectives of liquidity management and to provide an appropriate return;

- specific investment criteria and procedures for purposes of management of the securities portfolio;
- regular review, monitoring and approval by the Asset Liability Committee (ALCO) of policies regarding these investments and annual review and approval by the Board of Directors; and
- quarterly reporting to the Board of Directors on the securities portfolio.

*Table 12 - Liquid Assets*  
(\$ thousands)

	2004	2003	Change from 2003
Cash	\$ 2,831	\$ 1,951	\$ 880
Deposits with regulated financial institutions	229,895	279,921	(50,026)
<b>Total Cash Resources</b>	<b>232,726</b>	<b>281,872</b>	<b>(49,146)</b>
Securities purchased under resale agreements	74,966	72,000	2,966
Government of Canada treasury bills	182,487	119,982	62,505
Government of Canada and provincial bonds term to maturity 1 year or less	105,350	167,607	(62,257)
Government of Canada and provincial bonds term to maturity over 1 year	98,871	49,589	49,282
Preferred shares	107,104	71,897	35,207
Other marketable securities	43,786	3,236	40,550
<b>Total Securities Purchased Under Resale Agreements and Marketable Securities</b>	<b>612,564</b>	<b>484,311</b>	<b>128,253</b>
<b>Total Liquid Assets</b>	<b>\$ 845,290</b>	<b>\$ 766,183</b>	<b>\$ 79,107</b>
<b>Total Assets</b>	<b>\$ 4,918,895</b>	<b>\$ 4,343,972</b>	<b>\$ 574,923</b>
Liquid assets as a percentage of total assets	17.2%	17.6%	(0.4)%
<b>Total Deposit Liabilities</b>	<b>\$ 4,267,788</b>	<b>\$ 3,819,750</b>	<b>\$ 448,038</b>
Liquid assets as a percentage of total deposit liabilities	19.8%	20.1%	(0.3)%

As shown in Table 12, liquid assets comprised of cash, interbank deposits, securities purchased under resale agreements and marketable securities, totalled \$845 million at October 31, 2004, an increase of \$79 million from October 31, 2003. Liquid assets represented 17.2% (2003 – 17.6%) of total assets and 19.8% (2003 – 20.1%) of total deposit liabilities at that date.

Highlights of the composition of liquid assets at October 31, 2004 were as follows:

- maturities within one year decreased to 74% (2003 – 88%) of liquid assets or \$629 million (2003 – \$671 million) for yield enhancement and matching purposes;
- Government of Canada and provincial debt securities remained relatively consistent at 46% (2003 – 44%) of liquid assets;
- deposits with regulated financial institutions including Bankers' Acceptances decreased to 27% (2003 – 37%) of liquid assets;

*Table 13 - Deposit Maturities Within One Year*  
(\$ millions)

	Within 1 Month	1 to 3 Months	3 Months to 1 Year	Cumulative Within 1 Year
October 31, 2004				
Demand deposits	\$ 190	\$ –	\$ –	\$ 190
Notice deposits	663	–	–	663
Deposits payable on a fixed date	547	217	904	1,668
<b>Total</b>	<b>\$ 1,400</b>	<b>\$ 217</b>	<b>\$ 904</b>	<b>\$ 2,521</b>
October 31, 2003 Total	\$ 1,114	\$ 386	\$ 1,042	\$ 2,542

- preferred shares increased to 13% (2003 – 9%) of liquid assets as additional investments were made for yield enhancement purposes; and
- other marketable securities increased to 6% of liquid assets.

Included in liquid assets are securities purchased under resale agreements. These are short-term advances, typically no more than a few days in duration, to securities dealers and require the dealer to repurchase the securities comprised of treasury bills or other high quality liquid securities.

Short-term uncommitted facilities have been arranged with a number of financial institutions. The government insured/guaranteed mortgage portfolios held by the Bank also represent a potential source of liquidity.

The primary source of new funding is the issuance of deposit instruments. A summary of the deposits by maturity is presented in Tables 13 and 14.

**Table 14 - Total Deposit Maturities**  
(\$ millions)

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Year	4 to 5 Years	Total
October 31, 2004						
Demand deposits	\$ 190	\$ —	\$ —	\$ —	\$ —	190
Notice deposits	663	—	—	—	—	663
Deposits payable on a fixed date	1,668	762	536	287	162	3,415
Total	\$ 2,521	\$ 762	\$ 536	\$ 287	\$ 162	\$ 4,268
October 31, 2003 Total	\$ 2,542	\$ 453	\$ 469	\$ 224	\$ 132	\$ 3,820

A breakdown of deposits by source is provided under the heading Deposits in table 11 on page 31. Target limits by source have been established as part of the overall liquidity policy and are monitored to ensure an acceptable level of diversification in sources of funding is maintained. The Bank continues to aggressively pursue deposits through its branch network as the core funding source. However, the total dollar value of agent-generated deposits will likely increase even though the goal is to decrease funding from this source as a percentage of total deposit liabilities. CWT raises deposits through

notice accounts comprised primarily of cash balances held in self-directed accounts and corporate trust deposits and through the Bank's branch network. At October 31, 2004, trust notice account balances totalled \$147 million (2003 - \$122 million), and \$74 million (2003 - \$72 million) of CWT fixed term deposits had been raised through the Bank's branch network.

In addition to deposit liabilities, CWB has subordinated debentures outstanding which are presented in the table below.

**Table 15 - Subordinated Debentures Outstanding**  
(\$ thousands)

Interest Rate	Maturity Date	Earliest Date Redeemable or Convertible by CWB	2004	2003
Conventional				
6.85% <sup>(1)</sup>	June 30, 2012	June 30, 2007	\$ 3,126	\$ 3,126
5.66% <sup>(2)</sup>	July 7, 2013	July 7, 2008	30,000	30,000
5.96% <sup>(2)</sup>	October 24, 2013	October 24, 2008	35,000	35,000
			68,126	68,126
Convertible				
5.50% <sup>(3)</sup>	March 31, 2008	March 31, 2003	42,474	49,825
5.70% <sup>(4)</sup>	July 31, 2009	July 31, 2004	—	4,000
			42,474	53,825
Total			\$ 110,600	\$ 121,951

<sup>(1)</sup> This conventional debenture has a ten-year term with a fixed interest rate for the first five years. Thereafter, unless the terms are amended or the debenture is redeemed by the Bank, interest will be payable at a rate equal to the Canadian Dollar CDOR 90 day Bankers' Acceptance rate plus 100 basis points.

<sup>(2)</sup> These conventional debentures have a ten-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly to the Canadian Dollar CDOR 90 day Bankers' Acceptance rate plus 175 basis points.

<sup>(3)</sup> These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for redemption by the Bank, whichever is earlier, at a conversion price of \$30.50 per share (1,392,596 shares, 2003 - 1,633,603 shares). During the year, convertible debentures of \$7,351 (2003 - \$175) were converted by the holders into 241,007 (2003 - 5,736) common shares. Interest expense accrued on the debentures prior to conversion and forfeited by the debenture holders of \$81 (2003 - \$nil) was credited to retained earnings.

<sup>(4)</sup> The Bank redeemed this debenture on August 1, 2004 for 160,000 common shares.

On November 5, 2004 the Bank announced its intention to redeem all of the outstanding 5.5% convertible debentures for common shares on December 14, 2004. Under the terms of the trust indenture, the trustee will convert all outstanding debentures into common shares on the last day before the redemption date.

Subsequent to October 31, 2004, the Bank issued \$60 million of additional conventional debentures. The new debentures have a fixed rate of 5.55% until November 19, 2009. Thereafter the rate will be reset quarterly at the Canadian dollar CDOR 90-day Bankers' Acceptance rate plus 160 basis points until maturity on November 19, 2014. The Bank may redeem the debentures on or after November 20, 2009.

## CAPITAL MANAGEMENT

### Highlights of 2004

- Total capital ratio of 11.8%, and a Tier 1 ratio of 9.0% comprised entirely of common shareholders' equity.
- Increased semi-annual dividends 30% in December 2003.
- Moved from semi-annual to quarterly dividends.

### Subsequent Highlights

- Issued \$60 million of conventional subordinated debentures, which on a pro-forma basis would increase the total capital ratio to 13.3% at October 31, 2004.
- Announced intention to redeem outstanding convertible debentures totalling \$42.5 million, forcing their conversion into 1.4 million shares. On a pro-forma basis this would increase the Tier 1 ratio to 10.1% at October 31, 2004.
- Announced 20% increase to quarterly dividend payable in early January 2005.
- Announced stock dividend which will effectively achieve a two for one stock split in mid-January 2005.

The Office of the Superintendent of Financial Institutions (OSFI) requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the deemed credit risk of each type of asset a weighting of 0% to 100% is assigned. As an example, a loan that is fully insured by the Canadian Mortgage & Housing Corporation is applied a risk weighting of 0% as the Bank's risk of loss is nil, while uninsured commercial loans are assigned a risk weighting of 100% to reflect the higher level of risk associated with this type of asset. The ratio of regulatory capital to risk-weighted assets is calculated and compared to OSFI's standards for well-capitalized financial institutions. Off-balance sheet assets, such as derivatives, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk weight calculations are prescribed by OSFI. The Bank's investment in CDI is deducted from total capital and CDI's assets are excluded from the calculation of risk-weighted assets.

Published regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, in order to be considered well capitalized, OSFI has stated that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. CWB's Tier 1 capital is comprised entirely of shareholders' equity net of goodwill and Tier 2 capital includes subordinated debentures (to the regulatory maximum amount of 50% of Tier 1 capital) and an inclusion of the general allowance for credit losses at a prescribed inclusion rate based on

risk-weighted assets. OSFI has authorized the inclusion of the Bank's general allowance in Tier 2A capital to a maximum of 87.5 basis points of risk-weighted assets.

The revised international framework for capital measurement and standards, known as Basel II, was published in June 2004. Basel II introduces some significant changes to the risk-weighting of assets and calculation of regulatory capital. OSFI expects the Canadian banking industry to adopt Basel II at the end of fiscal 2007. Basel II is not expected to have a significant impact on the Bank's overall required level of regulatory capital although new procedures will need to be adopted to conform with the new framework.

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and which take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to be considered well capitalized, to protect customer deposits and to provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, while providing a satisfactory return on equity for shareholders.

The Bank has a stock option plan that is provided as an incentive to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by share price appreciation and dividend yield. Note 17 to the consolidated financial statements details the number of shares under options outstanding, the weighted average exercise price and the amounts exercisable at year end.



**Table 16 - Capital Structure and Regulatory Ratios at Year End**  
(\$ thousands)

	2004	2003	Change from 2003
<b>Tier 1 Capital</b>			
Common shares	\$ 167,125	\$ 150,782	\$ 16,343
Contributed surplus	1,159	252	907
Retained earnings	199,305	165,197	34,108
Less goodwill of trust subsidiary	(3,679)	—	(3,679)
<b>Total</b>	<b>363,910</b>	<b>316,231</b>	<b>47,679</b>
<b>Tier 2 Capital</b>			
General allowance for credit losses (Tier A) <sup>(1)</sup>	28,816	27,558	1,258
Subordinated debentures (Tier B)	110,600	121,951	(11,351)
<b>Total</b>	<b>139,416</b>	<b>149,509</b>	<b>(10,093)</b>
Less investment in insurance subsidiary	(28,205)	—	(28,205)
<b>Total Regulatory Capital</b>	<b>\$ 475,121</b>	<b>\$ 465,740</b>	<b>\$ 9,387</b>
<b>Regulatory Capital to Risk-weighted Assets</b>			
Tier 1 capital	9.0 %	8.9%	0.1 %
Tier 2 capital	3.5 %	4.2%	(0.7)%
Less investment in insurance subsidiary	(0.7)%	0.0%	(0.7)%
<b>Total Regulatory Capital Adequacy Ratio</b>	<b>11.8 %</b>	<b>13.1%</b>	<b>(1.3)%</b>
<b>Assets to Regulatory Capital Multiple <sup>(2)</sup></b>	<b>10.3</b>	<b>9.5</b>	<b>0.8</b>

<sup>(1)</sup> Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. The Bank has been granted an inclusion rate to a maximum of 0.875% of risk-weighted assets. At October 31, 2004, the Bank's general allowance represents 0.72% (2003 - 0.78%) of risk-weighted assets.

<sup>(2)</sup> Total assets plus off-balance sheet credit instruments, such as letters of credit and guarantees, less goodwill divided by total regulatory capital.

**Table 17 - Risk-weighted Assets**  
(\$ thousands)

	Balance	2004 Risk- weighted	Balance	2003 Risk- weighted
<b>Balance Sheet Assets</b>				
Cash resources	\$ 232,726	\$ 43,647	\$ 281,872	\$ 55,984
Securities	540,487	134,346	412,827	75,648
Loans	4,005,080	3,637,520	3,601,003	3,274,694
Other assets	140,602	71,103	48,270	46,100
	<b>\$ 4,918,895</b>	<b>3,886,616</b>	<b>\$ 4,343,972</b>	<b>3,452,426</b>
<b>Credit Instruments<sup>(1)</sup> (contract amounts)</b>				
Guarantees and standby letters of credit	\$ 94,270	56,953	\$ 64,413	48,312
Commitments to extend credit <sup>(2)</sup>	157,027	78,514	93,868	46,934
	<b>\$ 251,297</b>	<b>\$ 135,467</b>	<b>\$ 158,281</b>	<b>95,246</b>
<b>Derivative Financial Instruments<sup>(3)</sup> (notional amounts)</b>				
Interest rate contracts	\$ 882,500	1,526	\$ 819,500	1,415
Foreign exchange contracts	996	—	86	—
Equity contracts	17,765	299	15,825	258
	<b>\$ 901,261</b>	<b>1,825</b>	<b>\$ 835,411</b>	<b>1,673</b>
<b>Total Risk-weighted Assets</b>		<b>\$ 4,023,908</b>		<b>\$ 3,549,345</b>

<sup>(1)</sup> See Note 20 to the consolidated financial statements for further details.

<sup>(2)</sup> Greater than one year only.

<sup>(3)</sup> See Note 25 to the consolidated financial statements for further details.

At October 31, 2004 the total capital adequacy ratio was 11.8% (2003 – 13.1%) of which 9.0% (2003 – 8.9%) was Tier 1 capital. Total regulatory capital increased \$9.4 million over 2003 primarily as a result of a combination of:

- the issue of \$5.0 million in share capital upon the exercise of employee stock options;
- an increase in contributed surplus of \$907,000 related to the expensing of stock-based compensation;
- earnings, net of dividends, of \$34.1 million;
- an increase in the general allowance for credit losses of \$1.2 million;
- a \$3.7 million deduction for goodwill arising on the acquisition of Valiant Trust; and
- a \$28.2 million deduction for CWB's insurance subsidiary investment, calculated on the equity basis.

Also, impacting regulatory capital was the conversion of \$11.4 million of convertible debentures, which resulted in an increase in Tier 1 capital and a corresponding decrease in Tier 2 capital.

In December 2003, a semi-annual dividend of \$0.30 per share was declared, reflecting an increase of 30%. Thereafter, CWB moved to quarterly dividends with three additional payments of \$0.15 per share in fiscal 2004.

### Subsequent Events – Capital Management

On November 19, 2004, \$60 million of conventional subordinated debentures were issued to institutional investors. These debentures have a fixed interest rate of 5.55% until November 19, 2009 and a floating interest rate of 160 basis points above the Canadian dollar CDOR 90-day Bankers' Acceptance rate thereafter until maturity on November 19, 2014. The Bank may redeem all, but not less than all, of the debentures on or after November 20, 2009 at par plus accrued

and unpaid interest subject to approval of the Superintendent of Financial Institutions. The main purpose of the issue was to increase total regulatory capital to support current and future asset growth without diluting the existing common shareholder base. The issuance of these debentures would result in a pro-forma total capital ratio of 13.3% at October 31, 2004.

Also subsequent to year end, CWB provided notice of its intention to redeem all of the outstanding 5.50% convertible subordinated debentures, which will cause the debentures to convert to common shares at the conversion rate of \$30.50 on or before December 13, 2004. At October 31, 2004, there were \$42.5 million debentures outstanding which when converted will result in the issuance of approximately 1.4 million common shares. Conversion of the debentures will increase the number of CWB shares available in the market. The conversion also results in cash savings, builds CWB's common equity, has a positive incremental effect on net income and increases book value by approximately \$0.33 per share. The conversion would not impact the pro-forma total capital ratio at October 31, 2004, but would result in a pro-forma Tier 1 ratio of 10.1%.

On December 2, 2004, a quarterly cash dividend of \$0.18 per share was declared, an increase of 20%. Also on this date, the Board of Directors declared a stock dividend which when paid will effectively achieve a two for one stock split. This stock dividend will be paid subsequent to the above noted quarterly cash dividend, with each outstanding common share being entitled to one additional common share. By doubling the number of shares it is anticipated that there will be a corresponding reduction in the market price per share. The increase in shares outstanding makes CWB's common shares more affordable for investors, which should promote interest in the shares and broaden share ownership, events that can prove beneficial to all shareholders.

### Outlook for Capital Management

CWB expects to remain well capitalized in 2005. An ongoing objective is to increase return on equity through the expansion of CWB's key business strategies and by improving the mix of regulatory capital between dilutive and non-dilutive capital required to support growth.

### FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

On-balance sheet financial assets and liabilities are classified as securities, loans, deposits and subordinated debentures and are reported at amortized cost. The risks associated with these instruments are described under the credit quality, liquidity and risk management sections of this management's discussion and analysis. Market values for the securities held for liquidity purposes are reported in Note 4 to the consolidated financial statements for fiscal 2004. Fair values for all on- and off-balance sheet financial assets and liabilities are provided in Notes 24 and 25, respectively, to the financial statements. Income and expenses are classified as to source, either securities or loans for income, and deposits or borrowed funds for expense. Trading gains or losses, which result from the disposition of financial instruments prior to their maturity date, are shown separately in other income.

### ACQUISITIONS

At the end of April 2004, CDI and Valiant Trust were acquired for total cash consideration of \$33.7 million. The results of operations of these companies have been included in the Bank's consolidated financial statements since their dates of acquisition. CDI operates in the property and casualty insurance industry offering personal home and auto insurance directly to consumers in British Columbia and Alberta. Valiant Trust is a non-deposit taking, specialty trust company based in Calgary, Alberta that provides stock transfer and corporate trustee services to public companies and income trusts. For more information on these acquisitions, refer to Note 3 of the consolidated financial statements for fiscal 2004.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, CWB is involved in off-balance sheet arrangements, which are in two main categories: derivative financial instruments and guarantees.

### Derivative Financial Instruments

More detailed information on the nature of off-balance sheet derivative financial instruments is shown in Note 25 to the consolidated financial statements for 2004.

The active use of interest rate contracts continues to be an integral part of the management of the Bank's short-term positive gap position. Off-balance sheet derivative financial instruments are only entered into for the Bank's own account and it does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review. Policies regarding the use of off-balance sheet financial instruments are approved, reviewed, and monitored on a regular basis by the Asset Liability Committee and reviewed and approved by the Board of Directors at least annually.

### Guarantees

Significant guarantees provided by CWB in the ordinary course of business include guarantees and standby letters of credit provided to third parties and commitments to extend credit to customers. CWB also issues business credit cards through an agreement with a third party card issuer and indemnifies the card issuer from loss if there is a default on the issuer's collection of the business credit card balances. More detailed information on guarantees is available in Note 20 to the consolidated financial statements for 2004.

## OPERATING SEGMENT REVIEW

With the acquisition of CDI the Bank now operates in two business segments: 1) banking and trust, and 2) insurance.

### BANKING AND TRUST

#### Highlights of 2004

- Net income increased 9% over the prior year.
- Fifteenth consecutive year of double-digit loan growth, with loans up 11%.
- Branch and trust deposits increased 15%, with the lower cost demand and notice component up 30%.
- Trust fee income increased 55%.

The operations of the banking and trust segment include commercial and retail banking services as well as personal and corporate group trust services provided through the Bank's wholly owned subsidiaries, Canadian Western Trust Company and Valiant Trust Company. With a focus on mid-market commercial lending, real estate financing, industrial equipment financing and energy lending, CWB has built strong customer relationships and provides value-added services to businesses in key sectors across the west. The Bank also delivers a wide variety of financial products and services including deposit accounts, investment products, credit and debit

Table 18 - Derivative Financial Instruments  
(\$ thousands)

	2004	2003
Notional Amounts		
Interest rate contracts <sup>(1)</sup>	\$ 882,500	\$ 819,500
Equity contracts <sup>(2)</sup>	17,765	15,825
Foreign exchange contracts <sup>(3)</sup>	996	86
Total	\$ 901,261	\$ 835,411

<sup>(1)</sup> Interest rate contracts are used as hedging devices to manage interest rate risk. The outstanding contracts mature between November 2004 and September 2008. The total gross positive replacement cost of interest rate contracts was \$3,915 (2003 - \$4,581). This market value represents an unrealized gain, or the payment the Bank would receive if these contracts were unwound and settled at that date.

<sup>(2)</sup> Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The outstanding contracts mature between February 2005 and March 2009. The total gross positive replacement cost was \$73 (2003 - \$24).

<sup>(3)</sup> U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. At October 31, 2004 there were US\$783 (2003 - US\$60) forward foreign exchange contracts outstanding which mature between November 2004 and February 2005.

cards, personal loans and mortgages. Customer accessibility is provided through a network of twenty-nine customer focused branches as well as via the Internet and telephone banking. CWT provides a varied range of products and services, including self-directed RRSPs and RRI's, corporate and group trust services, to independent financial advisors, corporations and individuals. Through Valiant Trust, a non-deposit taking specialty trust company, trust services now include stock transfer and corporate trustee services provided to public companies and income trusts.



**Table 19 - Banking and Trust Highlights**  
(\$ thousands)

	2004	2003	Change from 2003
Net interest income (teb) <sup>(1)</sup>	\$ 116,280	\$ 107,655	8 %
Other income	28,134	25,326	11 %
Total revenues (teb)	144,414	132,981	9 %
Provision for credit losses	9,390	8,600	9 %
Non-interest expenses	71,510	61,566	16 %
Provision for income taxes (teb)	21,924	24,622	(11)%
Net income	\$ 41,590	\$ 38,193	10 %
Efficiency ratio (teb)	49.5%	46.3%	320 bp <sup>(2)</sup>
Net interest margin (teb)	2.58%	2.68%	(10)bp
Average loans (\$ millions)	\$ 3,761	\$ 3,450	9 %
Average assets (\$ millions)	\$ 4,510	\$ 4,022	12 %

<sup>(1)</sup> teb - taxable equivalent basis, see definition on page 18.

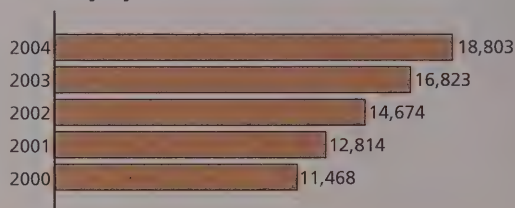
<sup>(2)</sup> bp-basis point

This segment's net income for fiscal 2004 was \$41.6 million, an increase of \$3.4 million (9%) over 2003. The increased earnings reflect total revenue (teb) growth of \$11.4 million (9%) and the \$1.6 million tax benefit previously noted, partially offset by a \$9.9 million (16%) increase in non-interest expenses. The growth in total revenues (teb) reflects loan growth of 11% over the past year, 30% growth in lower cost demand and notice deposits and trust fees of \$1.8 million from newly acquired Valiant Trust. Approximately \$5.1 million of the increase in non-interest expenses related to Valiant Trust, additional costs from seven significantly upgraded, relocated and new branch locations and an increase in relocation costs and stock-based compensation charges. Excluding the impact of these items, non-interest expenses increased by \$4.8 million (8%), reflecting increased staffing levels due to business growth, annual salary adjustments and various other initiatives.

The efficiency ratio (teb) for this segment at 49.5% was higher than the Bank's target for 2004 of 46.0% or less. The negative variance reflects certain human resource and other expenses being higher than anticipated, as well as net interest income being lower than expected. Net interest income was impacted by average loan volumes increasing only 9% compared to the target of 12%. On a year-over-year balance basis, loans almost reached the target with growth of over 11%, however the average balance reflects slower growth in the first part of 2004.

Non-interest revenues generated from trust operations totalled \$6.2 million in 2004, an increase of \$2.2 million (55%) over the prior year with a significant portion of the increase reflecting the addition of Valiant Trust. Trust operations, through CWT, also continue to provide a growing contribution to lower cost notice deposits. Trust generated notice deposits totalled \$147 million at the end of fiscal 2004, an increase of \$26 million (21%) over the prior year. Trust assets under administration, which are not reflected in the consolidated balance sheet (see also Note 21 to the consolidated financial statements), totalled approximately \$1,759 million at October 31, 2004, an increase of 19% over the prior year. These assets are primarily held in self-directed RRSPs and RRIAs accounts which numbered 18,803 (2003 - 16,823), an increase of 12% from one year ago.

#### Number of Self-directed Accounts



#### Outlook for Banking and Trust

The growth prospects for this segment in 2005 are good given the current positive economic outlook for Western Canada and the anticipation of moderately rising interest rates. This segment is expected to produce strong revenue growth, supported by strong growth in loans and lower cost branch generated deposits, including through CWT. Trust fee income is expected to again have significant growth in 2005, reflecting the full year impact of Valiant Trust as well as strong growth in personal and corporate and group trust fee income. Credit quality is also expected to remain strong.

## INSURANCE

### Highlights of 2004 (since acquisition on April 30, 2004)

- Net earnings of \$2.6 million.
- Claims loss ratio of 62% and a combined ratio of 89%.
- Number of policyholders increased by 5%.
- Policy retention rate of 86%.

CDI was launched in May 1996 and was the first company in British Columbia to offer customers auto insurance directly over the telephone, bypassing the traditional broker and agent. CDI now provides auto, household and travel insurance products to over 130,000 British Columbia and Alberta policyholders through two dedicated call centres and over the Internet for auto and travel products.

CDI's mission is to provide customers with attractively priced products and excellent customer service – "better insurance for less money". CDI's core strategy is to use sophisticated underwriting selection criteria to offer more competitively priced insurance to better risk customers. Products are offered direct to the customer thereby reducing costs, as there are no broker commissions. The "Canadian Direct Insurance" brand is marketed using TV, radio and newspaper channels and has a high level of brand awareness in the B.C. market, with an opportunity to grow the brand in the Alberta market. All claims are administered using modern imaging technology and effective workflow management to develop a "paperless office" environment. This has enabled CDI to achieve a low claims expense ratio without compromising high customer satisfaction ratings. CDI currently retains a high percentage of its business on renewal, which is a measure of its success in providing customers with a superior level of service at a competitive price.

As CDI was acquired at the end of the second quarter of 2004, Table 20 includes financial information for this segment beginning with the third quarter.

*Table 20 - Insurance Highlights*  
(\$ thousands)

	2004
Net interest income	\$ 957
Other income (net)	
Net earned premiums	27,362
Commissions and other	3,468
Net claims, adjustment and policy acquisition expenses	(22,865)
	7,965
Total revenues	8,922
Non-interest expenses	4,890
Provision for income taxes	1,461
Net income	\$ 2,571
Claims loss ratio	62%
Expense ratio	27%
Combined ratio	89%
Efficiency ratio	54.8%
Policies outstanding	135,201
Average cash and securities (Q3-Q4 only)	\$ 57,858
Average total assets (Q3-Q4 only)	\$ 114,138

CDI generated net income of \$2.6 million since acquisition, reflecting net earned premiums of \$27.4 million, a claim loss ratio of 62% and a combined ratio of 89%. Seasonality contributed to the strong loss ratio, as the six month period since acquisition was primarily summer months, which are typically the most favourable months for companies underwriting automobile insurance. All lines of the insurance business experienced favourable results, with the exception of Alberta home insurance which was impacted by severe flooding and hailstorms in July. Since acquisition, CDI has grown its policyholder base by nearly 5% or 6,000 policyholders and had a policy retention rate of 86%.

### Outlook for Insurance Operations

CDI's outlook for 2005 is for continued growth in policies outstanding and net earned premiums while controlling expenses. Changes in Alberta's automobile insurance regulations came into effect on October 1, 2004. These changes are anticipated to result in a decrease in net earned premiums as well as an increase in the claims loss ratio for CDI's Alberta automobile insurance market. Overall, financial targets for 2005 include a 10% growth in the number of policyholders, a claim loss ratio of 68% and an expense ratio of 27%. The forecasted increase in the claims loss ratio reflects that CDI's fiscal 2005 operating results will include the winter driving season. This compares to CDI's results for the six months since acquisition which primarily included summer months.

## SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

### QUARTERLY RESULTS

The financial results for each of the last eight quarters are summarized in the following table. In general, CWB's results reflect a consistent growth pattern. An exception to the consistency is the impact of the previously noted acquisitions of CDI and Valiant Trust at the end of second quarter of 2004. These acquisitions resulted in increased other income, non-interest expenses and earnings in third and fourth quarters of fiscal 2004.

The business of CDI also exposes the Bank's quarterly financial results to some fluctuations. CDI is in the property and casualty

insurance business, providing personal auto and home insurance directly to customers in British Columbia and Alberta. The financial results for this business (see information for the insurance segment provided on page 39) are subject to seasonal weather conditions, cyclical patterns of the industry and other unpredictable developments, including weather-related and other natural catastrophes.

*Table 21 - Quarterly Financial Highlights*  
(\$ thousands, except per share amounts)

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (teb) <sup>(1)</sup>	\$ 30,756	\$ 30,750	\$ 27,855	\$ 27,875	\$ 27,500	\$ 28,369	\$ 25,953	\$ 25,833
Less teb adjustment	1,313	930	854	801	559	906	685	842
Net interest income per financial statements	29,443	29,820	27,001	27,074	26,941	27,463	25,268	24,991
Other income	10,895	11,273	7,303	6,628	6,358	6,416	6,172	6,380
Total revenues (teb)	41,651	42,023	35,158	34,503	33,858	34,785	32,125	32,213
Total revenues	40,338	41,093	34,304	33,702	33,299	33,879	31,440	31,371
Net income	12,787	11,675	9,842	9,857	9,604	10,375	8,868	9,346
Return on common shareholders' equity	14.1%	13.4%	11.9%	12.1%	12.3%	13.7%	12.5%	13.2%
Return on average total assets	1.04%	1.01%	0.92%	0.89%	0.91%	1.00%	0.92%	0.97%
Earnings per common share								
Basic	\$ 0.94	\$ 0.87	\$ 0.74	\$ 0.75	\$ 0.74	\$ 0.81	\$ 0.70	\$ 0.74
Diluted	0.85	0.79	0.67	0.68	0.67	0.72	0.63	0.67
Efficiency ratio (teb)	51.7%	50.0%	49.2%	48.0%	46.9%	44.5%	47.8%	46.0%
Efficiency ratio	53.4%	51.1%	50.4%	49.2%	47.7%	45.7%	48.9%	47.3%
Net interest margin (teb)	2.49%	2.65%	2.61%	2.53%	2.60%	2.73%	2.69%	2.68%
Net interest margin	2.39%	2.57%	2.53%	2.45%	2.55%	2.65%	2.62%	2.60%
Provision for credit losses as a percentage of average loans	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

<sup>(1)</sup> teb - taxable equivalent basis, see definition on page 18.

### FOURTH QUARTER OF 2004

In the fourth quarter of 2004, CWB posted record quarterly earnings and achieved its 66th consecutive quarter of profitability. Net income for the quarter was \$12.8 million, an increase of 33% over the fourth quarter last year and diluted earnings per share were \$0.85 (\$0.94 basic) in the fourth quarter, up from \$0.67 (\$0.74 basic) in the same quarter last year.

The increased earnings reflect strong growth in total revenues, continued strong credit quality and a consistent provision for credit losses as well as a tax benefit of \$1.6 million resulting from the redemption of tax-advantaged preferred shares in which CWB had

an investment. Total revenues (teb) increased 23% over the same quarter last year due in part to 12% growth in net interest income. Net interest income (teb) reflects 11% growth in loans and the benefit of reduced funding costs primarily as a result of 30% growth in lower cost demand and notice deposits generated through the branch network. Also contributing to revenue growth were the acquisitions of CDI and Valiant Trust completed at the end of the second quarter. Both acquisitions have been accretive to earnings since acquisition, with CDI providing an after tax contribution of \$1.3 million in the fourth quarter.



Non-interest expenses were \$21.5 million in the quarter, an increase of \$5.6 million over the same quarter last year. This increase reflects the additional operating expenses (\$3.4 million) and amortization of intangible assets (\$120,000) associated with CDI and Valiant Trust. Also contributing to the increase were additional expenses from the Bank's seven significantly upgraded, relocated and new branch locations (\$700,000), and an increase in non-cash stock-based compensation charges of \$192,000 (the total fourth quarter stock-based compensation charges were \$332,000). Excluding the impact of these items, non-interest expenses were up \$1.1 million (7%) over the fourth quarter last year. This remaining increase reflects additional staffing levels as a result of business growth, annual salary adjustments and various other initiatives.

The efficiency ratio (teb), which measures non-interest expenses as a percentage of total revenues, was 51.7% for the quarter compared to 50.0% in the previous quarter and 46.9% in the same quarter one year ago. The operations of CDI and Valiant Trust added approximately 170 basis points to the ratio in the quarter compared to 110 basis points in the third quarter.

Fourth quarter earnings were up \$1.1 million (10%) over the third quarter earnings of \$11.7 million with the increase due to a lower tax provision, including the previously noted preferred share tax benefit, partially offset by increased non-interest expenses and lower revenues. Non-interest expenses increased \$528,000 compared to the third quarter, with the increase primarily related to CDI's operations. Total revenues reflect a decrease in credit related fees from the record fees achieved in the third quarter, as well as a reduction in trust fees in large part due to the fourth quarter for Valiant generally being slower than the third quarter. Net interest income in the fourth quarter was impacted by a 6% increase in total average assets, offset by a decrease in the net interest margin to 2.49% compared to 2.65% in the third quarter. The decrease in margin was primarily due to an increase in the proportion of lower yielding cash and securities, reduced loan related interest income (i.e. payout penalties), and an increase in preferred share premium amortization due to previously unanticipated early redemptions. The decrease more than offset the positive impact from two 25 basis point increases in the prime rate this quarter.

## ACCOUNTING POLICIES AND ESTIMATES

### CRITICAL ACCOUNTING ESTIMATES

CWB's significant accounting policies are outlined in Note 1 of the consolidated financial statements. The policies discussed below are considered particularly important as they require management to make significant estimates or judgements, some of which may relate to matters that are inherently uncertain.

#### Allowance for Credit Losses

An allowance for credit losses is maintained to absorb probable credit related losses in the loan portfolio. This allowance reflects management's estimate of probable losses in the loan portfolio at the balance sheet date. In assessing existing credit losses, management must rely on estimates and exercise judgement

regarding matters for which the ultimate outcome is unknown. These matters include economic factors, developments affecting particular industries and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be significantly different than current assessments and may require an increase or decrease in the allowance for credit losses. Establishing a range for the allowance for credit losses is difficult due to the number of uncertainties involved. This uncertainty is captured within the general allowance for credit losses. At October 31, 2004, the Bank's total allowance for credit losses was \$39.3 million (2003-\$35.4 million), which included a specific allowance of \$10.5 million (2003-\$7.8 million) general allowance of \$28.8 million (2003-\$27.6 million). Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of credit quality beginning on page 27 of this Management's Discussion and Analysis and Note 1(f) to the consolidated financial statements. This critical accounting estimate relates to CWB's banking and trust segment.

#### Provision for Unpaid Claims and Adjustment Expenses

A provision for unpaid claims is maintained, with the provision representing the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. A provision for adjustment expenses is also maintained which represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. Changes in circumstances may cause future assessments of unpaid claims and adjustment expenses to be significantly different than current assessments and may require an increase or decrease in the provision. In estimating the provision for unpaid claims and adjustment expenses, there are a number of uncertainties taken into account and assumptions made, which makes it difficult to estimate a range for the provision. Further, as noted above, the provision includes a margin for adverse deviations in assumptions. At October 31, 2004, the provision for unpaid claims and adjustment expenses totalled \$37.0 million. Additional information on the process and methodology for determining the provision for unpaid claims and adjustment expenses can be found in Notes 1(j) and 16 to the consolidated financial statements. This critical estimate relates to CWB's insurance segment.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

A summary of the CWB's significant accounting policies is presented in Note 1 to the 2004 consolidated financial statements and changes to significant accounting policies since October 31, 2003 are provided in Note 2. Specifically, the changes in fiscal 2004 relate to new requirements on hedging relationships and sources of Canadian generally accepted accounting principles. The financial statement impact of these changes was insignificant. Note 1 also includes accounting policies related to insurance operations which arose when CDI was acquired in April 2004.

## RISK MANAGEMENT

### OVERVIEW

Effective risk management is central to the ability to remain financially sound and profitable and includes identifying, assessing, managing and monitoring all forms of risk. The Bank is exposed to several categories of risk including: strategic, reputation, credit, liquidity, structural (asset/liability), market, fiduciary, insurance and operational. Additional information on risk factors is available in the Annual Information Form dated January 5, 2005 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Senior management is responsible for establishing the framework for identifying risks and developing appropriate risk management policies and frameworks. The Board of Directors, either directly or through its committees, reviews and approves the key policies, and implements specific reporting procedures to enable them to monitor ongoing compliance over significant risk areas. At least annually a report on risks and risk management policies is presented to the Board and/or Board committees for review and assessment.

The Loans Committee of the Board, which maintains a close working relationship with the credit risk management group, is responsible for:

- the review and approval of credit risk management policies;
- the review and approval of loans in excess of delegated limits;
- the review and monitoring of impaired and other less than satisfactory loans; and
- the recommendation of the adequacy of the allowance for credit losses to the Audit Committee.

The Asset Liability Committee (ALCO) provides the management oversight related to the risks of banking and trust operations, other than credit risk. ALCO is a management committee chaired by an Executive Vice President with the President and Chief Executive Officer (CEO) and other senior executives as members and is responsible for:

- ensuring that risks other than credit risk are identified and assessed and appropriate policies are in place and effective;
- the establishment and maintenance of policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, interest rate risk and derivatives; and
- regular meetings to review compliance and discuss strategy respecting management of risks.

Asset liability management policies are approved and reviewed at least annually by the Board with quarterly status reporting also provided.

The Operations Committee meets regularly and is made up of supervisory and management personnel from all areas of banking operations and is chaired by a member of senior management. This committee is responsible for developing appropriate policies and procedures, including internal controls, respecting day-to-day, routine banking operations.

The internal audit department performs inspections in all areas of the Bank, including CWT, Valiant Trust and CDI, and reports the results directly to senior management, as well as the Bank's CEO and Audit Committee. For CDI, inspection results are also reported directly to CDI's Audit Committee.

### CREDIT RISK

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Bank. This risk can relate to balance sheet assets, such as loans, as well as off-balance sheet assets such as guarantees and letters of credit. To diversify the risk, the exposure to a single borrower or associated borrowers is limited, unless approved by the Board of Directors, to an amount not exceeding 10% of common equity plus retained earnings.

The Bank employs and is committed to a number of important principles to manage credit exposures which include:

- a Loans Committee of the Board whose duties include approval of lending policies, establishment of lending limits for the Bank, the delegation of lending limits and the approval of larger credits as well as quarterly reports prepared by management on watch list loans, impaired loans, the adequacy of the allowance for credit losses, environmental risk and diversification of the portfolio;
- delegated lending authorities which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by a senior management group prior to recommendation to the Loans Committee of the Board;
- credit policies, guidelines and directives which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
- appointment of personnel engaged in credit granting who are qualified, experienced bankers;
- a standardized credit risk rating classification established for all credits and reviewed not less than annually;
- annual reviews of individual credit facilities (excepting consumer loans and single-unit residential mortgages);
- quarterly review of risk diversification by geographic area, industry sector and product measured against assigned portfolio limits;
- pricing of credits commensurate with risk to ensure appropriate compensation;
- management of growth within quality objectives;
- early recognition of problem accounts and immediate implementation of steps to protect the safety of Bank funds;
- independent reviews of credit valuation, risk classification and credit management procedures by the internal audit group which includes reporting the results to senior management, the CEO and the Audit Committee;

- detailed quarterly reviews of accounts rated less than satisfactory including establishment of an action plan for each account; and
- completion of a watch list report recording accounts with evidence of weakness, an impaired loan report covering loans which show impairment to the point where a loss is possible.

### Environmental Risk

The operations of the Bank do not have a material effect on the environment. However, a risk of default may occur if a borrower is unable to repay loans due to environmental clean up costs. The Bank may become directly liable for clean up costs when it is deemed to have taken control or ownership of a contaminated property. Risk assessment criteria and procedures are in place to manage environmental risks and these are communicated to lending personnel. Reports on environmental inspections and findings are reviewed by senior management and reported upon quarterly to the Board.

### Portfolio Quality

The Bank's strategy is to maintain a quality portfolio. Efforts are directed towards achieving a wide diversification, engaging experienced personnel who provide a hands on approach in credit granting, account management and quick action when problems develop. The lending focus is primarily directed to small and medium-sized businesses and to individuals with operations conducted in the four western provinces. Relationship banking and "know your customers" are important tenets of account management. An appropriate financial return on the level of risk is fundamental. Over the past several years the Bank has also participated in larger investment grade credits (corporate loans) through participation in selected syndications, which are generally led by the major Canadian banks. In addition to being able to lend to larger companies, this initiative has also provided a degree of geographic diversification.

### LIQUIDITY RISK

Liquidity risk is the risk that there will not be sufficient cash to meet obligations as they become due. This risk arises from fluctuations in cash flows from lending, deposit taking, investing and other activities. Effective liquidity management ensures that adequate cash is available to honour all cash outflow obligations. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and to react to other market opportunities.

Liquidity policies include:

- measurement and forecast of cash flows;
- maintenance of a pool of high quality liquid assets;
- a stable base of core deposits from retail and commercial customers;
- limits on single deposits and sources of deposits;
- diversification of funding sources; and
- an approved contingency plan.

Key features of liquidity management are:

- daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position, including the flows from off-balance sheet items, on a forward four month rolling basis;
- consideration of the term structure of assets and liabilities, with emphasis on deposit maturities, as well as expected loan fundings and other commitments to provide funds when determining required levels of liquidity; and
- separate management of the liquidity position of the Bank and CWT to ensure compliance with related party and other regulatory tests.

### MARKET RISK

Market risk is the impact on earnings resulting from changes in financial market variables such as interest rates and foreign exchange rates. Market risk arises when making loans, taking deposits and making investments. The Bank itself does not undertake trading activities and, therefore, does not have risks related to such activities as market making, arbitrage or proprietary trading. The Bank's material market risks are confined to interest rates and foreign exchange as discussed below.

### Interest Rate Risk

Interest rate risk or sensitivity can be defined as the impact on net interest income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises primarily when cash flows associated with interest sensitive assets and liabilities have different repricing dates. The differentials, or interest rate gaps, arise as a result of the financial intermediation process and reflect differences in term preferences on the part of borrowers and depositors.

A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise since assets are repricing earlier than liabilities. The opposite impact will occur when market interest rates fall.

To manage interest rate risk arising as a result of the financial intermediation process, ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and decide future strategy. The objective is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the Board of Directors with quarterly reporting provided to the Board as to the gap position.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured at least monthly. Note 23 to the consolidated financial statements shows the consolidated gap position at October 31, 2004 for selected time intervals.



The gap analysis in Note 23 is a static measurement of interest rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates as well as the size and maturity structure of the cumulative interest rate gap position and management of those positions over time.

During the year, the one year and under cumulative gap decreased from 2.5% to 0.2% and the one month and under gap decreased from 3.6% to 0.3%. Gaps remained positive and the Bank's asset/liability position is expected to continue such that rising interest rates would generally increase net interest income.

Of the \$1,668 million in fixed term deposit liabilities maturing within one year from October 31, 2004, approximately \$1,214 million (28% of total deposit liabilities) mature by April 30, 2005 (as shown in Table 13). The term in which maturing deposits are retained will have an impact on the future asset liability structure and hence interest rate sensitivity. Approximately \$185 million of the fixed term deposit liabilities maturing within one month are floating rate redeemable deposits with a one year contractual maturity redeemable without penalty at any time.

*Table 22 - Estimated Sensitivity of Net Interest Income as a Result of a One Percentage Point Change in Interest Rates (\$ thousands)*

Period	2004	2003
90 days	\$ 219	\$ 508
1 year	963	2,110
1 year percentage change	0.8%	2.0%

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 22. The amounts represent the estimated change in net interest income over the time period shown resulting from a one percentage point change in interest rates. If rates increase, the effect would be an increase in net interest income while the opposite would occur if rates decrease. The estimates are based on a number of assumptions and factors, which include:

- a constant structure in the asset liability portfolio;
- interest rate changes affect interest sensitive assets and liabilities by the same amount and are applied at the appropriate repricing dates; and
- no early redemptions.

The interest sensitivity of the portfolio decreased in both absolute dollar terms and as a percentage of estimated future net interest income during the year.

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract appropriate assets and liabilities as well as through the use of interest rate swaps or other appropriate hedging techniques (see discussion under Derivative Financial Instruments). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control and, with the exception of subordinated debentures, were not material as at October 31, 2004.

The subordinated debentures, which typically are renegotiated after five years or redeemed (subject to OSFI approval), are discussed in Note 14 to the consolidated financial statements.

## Foreign Exchange Risk

In providing financial services to its customers, the Bank has assets and liabilities denominated in U.S. dollars. At October 31, 2004, assets denominated in U.S. dollars were 0.8% (2003 – 0.7%) of total assets and U.S. dollar liabilities were 0.8% (2003 – 0.7%) of total liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific customer needs and therefore, the Bank has no exposure to currencies other than U.S. dollars.

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in U.S. dollars. Policy is established setting a limit on the difference between U.S. dollar assets and liabilities. The difference is measured daily and managed by use of U.S. dollar contracts or other means. Policy respecting foreign exchange exposure is reviewed and approved at least annually by the Board of Directors, and deviations from policy are reported to the Board and ALCO.

## INSURANCE RISK

With the acquisition of Canadian Direct Insurance Incorporated in April 2004, the Bank became exposed to the elements of risk associated with the property and casualty insurance business which can cause fluctuations and uncertainties in profitability. The insurance business involves various types of insurance related risk, in particular: underwriting risk, pricing risk, claims risk, reinsurance risk and regulatory risk. Policies and procedures have been established to manage insurance related risk. CDI's Board of Directors, either directly or through a Board committee, is responsible for reviewing and approving key policies and implementing reporting requirements to enable them to monitor compliance over significant areas.

Underwriting risk is the risk of financial loss due to inappropriate selection of customers and is reduced through controls built into the rating and underwriting system. These controls include eligibility audits and more senior staff review of exceptions. Pricing risk is the risk that products may be inappropriately priced due to actual experience not matching the assumptions made at the time pricing is determined. This is mitigated by regular underwriting reviews of product rate adequacy. Regulatory intervention may also impact rate adequacy, as described below under regulatory risk.

Claims risk includes the risk of financial loss due to adverse deviation in the amount, frequency or timing of claims. Policies and procedures are in place to ensure that properly trained staff handle claims. However the process for establishing the provision for unpaid claims may reflect significant judgement and uncertainty, especially with respect to liability claims. Factors such as inflation, claims settlement patterns, legislative activity and litigation trends may impact the actual claims amount as the claims are adjusted over time.

The risk that CDI might be exposed to single large claims or to an accumulation of claims resulting from a natural catastrophe, such as a weather related or seismic event, is mitigated by reinsurance

treaties that protect from such risks. Reinsurance risk includes the risk that reinsurance counterparties are not financially strong and that underwriting strategies are inappropriately matched with reinsurance programs. Reinsurance is only purchased from reinsurers meeting a certain minimum security rating. Reinsurance treaties are properly matched to underwriting strategies through participation of senior underwriting staff in the process. CDI is dependent on the availability and pricing of its external reinsurance arrangements and this availability and global markets may impact pricing. If CDI is unable to renew such arrangements at favourable rates and to adequate limits, then CDI may need to modify its underwriting practices or commitments.

In addition, as the insurance business is heavily regulated, CDI is exposed to regulatory risk. This is evidenced by the recent provincial government changes to auto insurance in Alberta that created a premium rate rollback to Alberta policyholders. This risk is countered mainly by monitoring current developments and by actively participating in relevant bodies and associations in order to contribute CDI's perspective.

#### **OPERATIONAL RISK**

Operational risk is inherent in all business activities, including banking, trust and insurance operations. It is the potential for loss as a result of external events, human error or inadequacy or failure of processes, procedures or controls. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory penalties. The Bank is exposed to operational risk from internal business activities and from activities that are outsourced. The financial measure of operational risk is actual losses incurred. No material losses occurred in 2004 or 2003.

Strategies to minimize and manage operational risk includes:

- a knowledgeable and experienced management team that is committed to the risk management policies;
- regular meetings of the Operations Committee, a management committee made up of supervisory and management personnel from all banking operational areas and chaired by a member of senior management, which is responsible for the development and recommendation of policies and procedures regarding day-to-day, routine banking operations;
- communication of the importance of effective risk management to all levels of staff through training and policy implementation;

- regular inspections for compliance and the effectiveness of procedural controls by a strong, independent internal audit team;
- centralized reporting of operating losses for risk assessment;
- implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- use of technology via automated systems with built-in controls;
- continual review and upgrade of systems and procedures; and
- updated and tested procedures and contingency plans for disaster recovery and business continuity.

In addition, the shareholders' auditors report annually on the consolidated financial statements of the Bank in accordance with Canadian generally accepted auditing standards, and their audit includes a review of certain systems of operating and financial controls and other such tests and procedures considered necessary to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. Accordingly, an audit would not identify all such matters that may be of interest to the Audit Committee, however any weaknesses in internal controls and other non-trivial matters identified are communicated to the Audit Committee.

#### **UPDATED SHARE INFORMATION**

As at November 30, 2004, the Bank had 14,298,838 common shares outstanding. In addition, there were outstanding debentures with a combined principal amount of \$23.4 million that will be converted into a total of 766,679 common shares and employee stock options that have been issued which are or will be exercisable into 1,251,685 common shares (1,258,509 authorized) for proceeds of up to \$37.4 million.

On December 2, 2004, a quarterly cash dividend of \$0.18 per share was declared. Also on this date, the Board of Directors declared a stock dividend which when paid will effectively achieve a two for one stock split. This stock dividend will be paid subsequent to the above noted quarterly cash dividend, with each common share outstanding being entitled to one additional common share.

Dated as of December 2, 2004.

# CONSOLIDATED FINANCIAL STATEMENTS



## MANAGEMENT'S REPORT

The consolidated financial statements of Canadian Western Bank and related financial information presented in this annual report have been prepared by management, who are responsible for the integrity, objectivity and reliability of the data presented. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles including the requirements of the Bank Act and related rules and regulations issued by the Superintendent of Financial Institutions Canada.

The consolidated financial statements and related financial information reflect amounts which must, of necessity, be based on informed estimates and judgements of management with appropriate consideration to materiality. The financial information presented elsewhere in this annual report is fairly presented and consistent with that in the consolidated financial statements.

The Bank's accounting system and related internal controls are designed, and supporting procedures are maintained, to provide reasonable assurance that financial records are complete and accurate, assets are safeguarded and the Bank is in compliance with all regulatory requirements. These supporting procedures include the careful selection and training of qualified staff, defined division of responsibilities and accountability for performance, and the written communication of policies and guidelines of business conduct and risk management throughout the Bank.

The system of internal controls is also supported by the internal audit department which carries out periodic inspections of all aspects of the Bank's operations. The Chief Inspector has full and free access to the Audit Committee and to the shareholders' auditors.

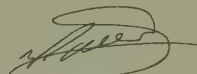
The Audit Committee, appointed by the Board of Directors, is comprised entirely of independent directors who are not officers or employees of the Bank. The committee is responsible for reviewing the financial statements and annual report, including management's discussion and analysis of operations and financial condition, and recommending them to the Board of Directors for approval. Other

key responsibilities of the Audit Committee include meeting with management, the Chief Inspector and the shareholders' auditors to discuss the effectiveness of internal controls over the financial reporting process and the planning and results of the external audit. The committee also meets regularly with the Chief Inspector and the shareholders' auditors without management present.

The Conduct Review Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. Their responsibilities include reviewing related party transactions, and reporting to the Board of Directors, those transactions which may have a material impact on the Bank.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the Bank as he may deem necessary or expedient to satisfy himself that the provisions of the Bank Act, having reference to the safety of the creditors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders of the Bank, have performed an audit of the consolidated financial statements and their report follows. The shareholders' auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.



Larry M. Pollock  
President and  
Chief Executive Officer  
November 29, 2004



Tracy C. Ball, CA  
Executive Vice President and  
Chief Financial Officer

## AUDITORS' REPORT

To The Shareholders of Canadian Western Bank

We have audited the Consolidated Balance Sheet of Canadian Western Bank as at October 31, 2004 and 2003 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flow for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2004 and 2003 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Edmonton, Alberta  
November 29, 2004

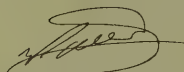
# CONSOLIDATED BALANCE SHEET

As at October 31  
(\$ thousands)

		2004	2003
<b>Assets</b>			
Cash Resources			
Cash		\$ 2,831	\$ 1,951
Deposits with regulated financial institutions		229,895	279,921
		232,726	281,872
Securities	(Note 4)		
Issued or guaranteed by Canada		238,153	241,352
Issued or guaranteed by a province or municipality		148,555	95,826
Other securities		153,779	75,649
		540,487	412,827
Loans	(Note 5)		
Securities purchased under resale agreements		74,966	72,000
Residential mortgages		700,791	662,825
Other		3,268,643	2,901,543
		4,044,400	3,636,368
Allowance for credit losses	(Note 6)	(39,320)	(35,365)
		4,005,080	3,601,003
Other			
Land, buildings and equipment	(Note 7)	18,499	13,019
Goodwill	(Note 8)	6,933	–
Intangible assets	(Note 8)	4,309	–
Insurance related	(Note 9)	55,583	–
Other assets	(Note 10)	55,278	35,251
		140,602	48,270
<b>Total Assets</b>		<b>\$ 4,918,895</b>	<b>\$ 4,343,972</b>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	(Note 11)		
Payable on demand		\$ 190,214	\$ 136,874
Payable after notice		662,518	519,560
Payable on a fixed date		3,415,056	3,163,316
		4,267,788	3,819,750
Other			
Cheques and other items in transit		18,175	17,477
Insurance related	(Note 12)	90,427	–
Other liabilities	(Note 13)	64,316	68,563
		172,918	86,040
Subordinated Debentures	(Note 14)		
Conventional		68,126	68,126
Convertible		42,474	53,825
		110,600	121,951
Shareholders' Equity			
Capital stock	(Note 15)	167,125	150,782
Contributed surplus		1,159	252
Retained earnings		199,305	165,197
		367,589	316,231
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 4,918,895</b>	<b>\$ 4,343,972</b>



Jack C. Donald  
Chairman



Larry M. Pollock  
President and Chief Executive Officer

# CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31  
(\$ thousands, except per share amounts)

	2004	2003
Interest Income		
Loans	\$ 220,101	\$ 220,043
Securities	13,519	11,900
Deposits with regulated financial institutions	4,565	4,427
	238,185	236,370
Interest Expense		
Deposits	118,087	127,766
Subordinated debentures	6,760	3,941
	124,847	131,707
Net Interest Income	113,338	104,663
Provision for credit losses	(Note 6)	9,390
Net Interest Income after Provision for Credit Losses	103,948	96,063
Other Income		
Credit related	13,641	13,099
Insurance, net	(Note 16)	7,896
Trust services	6,208	4,017
Retail services	5,066	4,679
Gains on sale of securities	1,685	2,095
Foreign exchange gains and other	1,603	1,436
	36,099	25,326
Net Interest and Other Income	140,047	121,389
Non-interest Expenses		
Salaries and employee benefits	45,998	37,680
Premises and equipment	13,922	11,034
Other expenses	14,487	11,144
Provincial capital taxes	1,993	1,708
	76,400	61,566
Net Income before Provision for Income Taxes	63,647	59,823
Provision for income taxes	(Note 18)	19,486
Net Income	\$ 44,161	\$ 38,193
Earnings Per Common Share	(Note 19)	
Basic	\$ 3.30	\$ 2.98
Diluted	\$ 3.00	\$ 2.69

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31  
(\$ thousands)

	2004	2003
Capital Stock	(Note 15)	
Balance at beginning of year	\$ 150,782	\$ 145,203
Issued on debenture conversions	11,351	175
Issued on exercise of employee stock options	4,992	5,404
Balance at end of year	167,125	150,782
Contributed Surplus	(Note 17)	
Balance at beginning of year	252	-
Amortization of fair value of employee stock options	907	252
Balance at end of year	1,159	252
Retained Earnings		
Balance at beginning of year	165,197	132,884
Net income	44,161	38,193
Dividends	(10,038)	(5,880)
Share issue costs, net of income taxes of \$7 (2003 - \$nil)	(15)	-
Balance at end of year	199,305	165,197
Total Shareholders' Equity	\$ 367,589	\$ 316,231



# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended October 31  
(\$ thousands)

	2004	2003
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 44,161	\$ 38,193
Adjustments to determine net cash flows:		
Provision for credit losses	9,390	8,600
Depreciation and amortization	4,291	3,088
Future income taxes, net	414	(1,581)
Gain on sale of securities, net	(1,685)	(2,095)
Accrued interest receivable and payable, net	(7,458)	5,043
Current income taxes payable, net	(9,826)	37
Other items, net	(6,851)	(3,750)
	32,436	47,535
<b>Cash Flows from Financing Activities</b>		
Deposits, net	448,038	390,679
Common shares issued (Note 15)	4,992	5,404
Dividends	(10,038)	(5,880)
Debentures issued	—	65,000
	442,992	455,203
<b>Cash Flows from Investing Activities</b>		
Loans, net	(413,467)	(360,856)
Interest bearing deposits with regulated financial institutions, net	58,645	(117,516)
Securities, purchased	(1,167,608)	(1,012,656)
Securities, sales proceeds	152,088	99,828
Securities, maturities	935,708	849,846
Land, buildings and equipment	(7,833)	(2,382)
Business acquisitions (Note 3)	(33,697)	—
	(476,164)	(543,736)
Decrease in Cash and Cash Equivalents	(736)	(40,998)
Cash and Cash Equivalents at Beginning of Year	20,522	61,520
Cash and Cash Equivalents at End of Year *	\$ 19,786	\$ 20,522
* Represented by:		
Cash resources	\$ 232,726	\$ 281,872
Non-operating, interest bearing deposits with regulated financial institutions	(194,765)	(243,873)
Cheques in transit	(18,175)	(17,477)
Cash and Cash Equivalents at End of Year	\$ 19,786	\$ 20,522
<b>Supplemental Disclosure of Cash Flow Information</b>		
Amount of interest paid in the year	\$ 129,426	\$ 127,247
Amount of income taxes paid in the year	\$ 29,276	\$ 23,174

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2004

(\$ thousands, except per share amounts)

## 1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with subsection 308 (4) of the Bank Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Key areas of estimation where management has made subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, the fair value of financial instruments, goodwill and intangible assets, provision for unpaid claims and adjustment expenses and the future income tax asset and liability. Therefore, actual results could differ from these estimates.

### a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank and are corporations in which the Bank owns more than fifty percent of the voting shares. See Note 28 for details of the subsidiaries.

### b) Business Combinations, Goodwill and Other Intangible Assets

Business acquisitions are accounted for using the purchase method. Goodwill is the excess of the purchase price paid for the acquisition of a subsidiary over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other intangibles with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Other intangibles with a finite life are amortized to the statement of income over their expected lives not exceeding ten years. These intangible assets are tested for impairment whenever circumstances indicate that the carrying amount may not be recoverable. Any impairment of goodwill or other intangible assets will be charged to the statement of income in the period of impairment.

### c) Cash and Cash Equivalents

Cash and cash equivalents presented on the statement of cash flow include cash and non-interest bearing deposits with other banks less cheques in transit.

### d) Securities

Securities are held in either the investment account or the trading account.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market

conditions render alternative investments more attractive. Debt securities and preferred shares are stated at amortized cost and other equity securities are stated at cost or, if an impairment in value is other than temporary, at net realizable value. Gains and losses realized on disposal of securities and adjustments to record any other than temporary impairment in value are included in other income. Amortization of premiums and discounts are reported in interest income from securities in the consolidated statement of income.

Trading account securities, which are purchased for resale over a short period of time, are carried at estimated current market value. Gains and losses realized on disposal and adjustments to market value are reported in other income in the consolidated statement of income in the period during which they occur.

### e) Loans

Loans are stated net of unearned income, unamortized premiums and an allowance for credit losses (Note 1(f)).

Interest income is recorded on the accrual basis except for loans classified as impaired. Loans are determined to be impaired when payments are contractually past due 90 days, or where the Bank has taken realization proceedings, or where the Bank's management is of the opinion that the loan should be regarded as impaired. An exception may be made where management determines that the loan is well secured and in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment went in arrears. All loans are classified as impaired when a payment is 180 days in arrears other than loans guaranteed or insured for both principal and interest by the Canadian government, the provinces or a Canadian government agency. These loans are classified as impaired when payment is 365 days in arrears.

Impairment is measured as the difference between the carrying value of the loan at the time it is classified as impaired and the present value of the expected cash flows (estimated realizable amount), using the interest rate inherent in the loan at the date the loan is classified as impaired. When the amounts and timing of future cash flows cannot be reliably estimated, either the fair value of the security underlying the loan, net of any expected realization costs, or the current market price for the loan may be used to measure the estimated realizable amount. At the time a loan is classified as impaired, interest income will cease to be recognized in accordance with the loan agreement, and any uncollected but accrued interest will be added to the carrying value of the loan together with any unamortized premiums, discounts or loan fees. Subsequent payments received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Impaired loans are returned to performing status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current and all charges for loan impairment have been reversed.

Loan fees, net of directly related costs, are amortized to interest income over the expected term of the loan when such fees are considered to be an integral part of the return earned on the particular loan. Premiums paid on the acquisition of loan portfolios are amortized to interest income over the expected term of the loans.

## 1. Significant Accounting Policies (continued)

### f) Allowance for Credit Losses

An allowance for credit losses is maintained, which in the Bank's opinion, is adequate to absorb credit related losses in its loan portfolio. The adequacy of the allowance for credit losses is reviewed at least quarterly. The allowance for credit losses is deducted from the loans balance.

The allowance for credit losses consists of specific provisions and the general allowance for credit risk. Specific provisions include all the accumulated provisions for losses on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit risk includes provisions for future losses inherent in the portfolio that are not presently identifiable by management of the Bank on an account by account basis. The general allowance for credit risk is established by taking into consideration historical trends in the loss experience during economic cycles, the current portfolio profile, estimated losses for the current phase of the economic cycle and historical experience in the industry.

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses in the consolidated statement of income is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

### g) Securities Purchased Under Resale Agreements

Securities purchased under resale agreements are secured loans as they represent a purchase of Government of Canada securities by the Bank effected with a simultaneous agreement to sell them back at a specified price on a future date, which is generally short term. Securities purchased under resale agreements are carried at cost. The difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded as loan interest income.

### h) Land, Buildings and Equipment

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated primarily using the straight-line method over the estimated useful life of the asset as follows: buildings – 20 years, equipment and furniture – 3 to 5 years, and leasehold improvements – term of lease. Gains and losses on disposal are recorded in other income in the year of disposal.

### i) Deferred Financing Costs

Deferred financing costs relating to the issuance of debentures are amortized on a straight-line basis over the life of the related debenture.

### j) Insurance Operations

#### *Premiums Earned and Deferred Policy Acquisition Costs*

Insurance premiums are included in other income on a daily pro rata basis over the terms of the underlying insurance policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in-force and are included in other liabilities.

Policy acquisition costs are those expenses incurred in the acquisition of insurance business. Acquisition costs comprise advertising and marketing expenses, insurance advisor salaries and benefits, premium taxes and other expenses directly attributable to the production of business. Policy acquisition costs related to unearned premiums are only deferred, and included in other assets, to the extent that they are expected to be recovered from unearned premiums and are amortized to income over the periods in which the premiums are earned.

#### *Unpaid Claims and Adjustment Expenses*

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. These provisions are included in other liabilities and their computation takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

All provisions are periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

#### *Reinsurance Ceded*

Earned premiums and claims expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded in other assets and are estimated in a manner consistent with the liabilities associated with the reinsured policies.

### k) Income Taxes

The Bank follows the asset and liability method of accounting for income taxes whereby current income taxes are recognized for the estimated income taxes payable for the current year. Future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change. All future income tax assets are expected to be realized in the normal course of operations.



## 1. Significant Accounting Policies (continued)

### l) Stock Option Plans

The fair value based method has been adopted to account for stock options granted to employees on or after November 1, 2002. The estimated fair value is recognized over the applicable vesting period as an increase to both salary expense and contributed surplus. When options granted on or after November 1, 2002 are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to capital stock. In accordance with GAAP, no expense is recognized for options granted prior to November 1, 2002. When these options are exercised, the proceeds received are credited to capital stock.

### m) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency positions are included in other income.

### n) Derivative Financial Instruments

Interest rate, foreign exchange and equity contracts such as futures, options, swaps and floors are entered into for risk management purposes in accordance with the Bank's asset liability management policies. It is the Bank's policy not to utilize derivative financial instruments for trading or speculative purposes. Interest rate swaps and floors are used to reduce the impact of fluctuating interest rates. Equity contracts are used to offset the return paid to depositors on certain deposit products that are linked to a stock index. Foreign exchange contracts are only used for the purposes of meeting needs of clients or day to day business.

The Bank designates each derivative financial instrument as a hedge of identified assets and liabilities, firm commitments or forecasted transactions. On an ongoing basis the Bank assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items. Derivatives that qualify for hedge accounting are accounted for on the accrual basis. Interest income received or interest expense paid is recognized as interest income or expense, as appropriate, over the term of the hedge contract. Premiums on purchased contracts are amortized to interest expense over the term of the contract. Accrued interest receivable and payable and deferred gains and losses for these contracts are recorded in other assets or liabilities as appropriate. Realized and unrealized gains or losses associated with

derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other assets or other liabilities, as appropriate, and amortized into income over the original hedged period. In the event a designated hedged item is terminated or eliminated prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in other income.

### o) Employee Future Benefits

All employee future benefits are accounted for on an accrual basis. The Bank's contributions to the group retirement savings and employee share purchase plans totalled \$3,493 (2003-\$2,426).

### p) Earnings per Common Share

Basic earnings per common share is calculated based on the average number of common shares outstanding during the year. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options would be used to purchase the Bank's common shares at the average market price during the year. Convertible debentures are assumed to be converted into common shares at the beginning of the year, or at the date the debenture was issued if later, and all related income statement charges are added back to earnings.

## 2. Changes in Accounting Policies

### *Hedging Relationships*

The Canadian Institute of Chartered Accountants (CICA) has issued an accounting guideline for hedging relationships that establishes certain requirements for the application of hedge accounting that has been adopted prospectively. Effective November 1, 2003, changes in the fair value of derivatives that do not qualify for hedge accounting are recorded in other income. The Bank enters into derivative financial instruments for risk management purposes as described in Note 25. Virtually all of the Bank's existing derivative financial instruments qualify for hedge accounting under the new guideline and, as a result, the impact of the implementation of the guideline was negligible.

### *Generally Accepted Accounting Principles*

Effective November 1, 2003, the Bank adopted new accounting requirements that provide guidance on sources to consult when selecting accounting policies on matters not covered explicitly in the primary sources of generally accepted accounting principles. There were no significant changes in the existing accounting policies as a result of the new requirements.

### 3. Business Acquisitions

On April 30, 2004, the Bank acquired all of the outstanding shares of HSBC Canadian Direct Insurance Incorporated (subsequently renamed Canadian Direct Insurance Incorporated). Canadian Direct Insurance Incorporated offers property and casualty insurance directly to consumers in British Columbia and Alberta. The Bank also acquired Valiant Trust Company on April 29, 2004 by purchasing all of the outstanding shares of its holding company Corporate Shareholder Services Inc. Valiant Trust Company is a non-deposit taking, specialty trust company based in Calgary, Alberta that provides stock transfer and corporate trustee services to public companies and income trusts. The results of operations for the two companies have been included in the Bank's consolidated financial statements since the dates of acquisition. The total cost of the acquisitions of \$33,697 was paid in cash. The following table summarizes the fair value of the assets acquired and liabilities assumed:

Net assets acquired	
Cash resources	\$ 9,537
Securities	48,036
Other assets	55,626
Other intangible assets	4,580
Goodwill	6,933
Other liabilities, including future income tax liability of \$1,718	(91,015)
	\$ 33,697

The cash resources acquired are included in interest-bearing deposits with regulated financial institutions on the consolidated statement of cash flows. The identified intangible assets include a trademark, a non-competition agreement, computer software and customer relationships. The trademark, which has a value of \$300, is not subject to amortization. Goodwill includes \$3,679 related to the banking and trust segment and \$3,254 related to the insurance segment. The total amount of goodwill and intangible assets will not be deductible for income tax purposes.

### 4. Securities

The analysis of securities at carrying value, by type and maturity is as follows:

	Maturities				2004 Total Book Value	2003 Total Book Value
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years		
Securities issued or guaranteed by:						
Canada	\$ 226,140	\$ 8,748	\$ 769	\$ 2,496	\$ 238,153	\$ 241,352
A province or municipality	61,719	83,609	1,024	2,203	148,555	95,826
Other debt securities	12,241	13,264	11,786	4,115	41,406	3,236
Equity securities						
Preferred shares	18,781	—	30,233	58,090	107,104	71,897
Other equity	2,380	—	—	2,889 <sup>(2)</sup>	5,269	516
Total <sup>(1)</sup>	\$ 321,261	\$ 105,621	\$ 43,812	\$ 69,793	\$ 540,487	\$ 412,827

<sup>(1)</sup> All securities are held in the investment account.

<sup>(2)</sup> Includes securities with no specific maturity.

The analysis of unrealized gains and losses on investment securities is as follows:

	2004				2003			
	Book Value	Unrealized Gains	Unrealized Losses	Estimated Market Value	Book Value	Unrealized Gains	Unrealized Losses	Estimated Market Value
Securities issued or guaranteed by:								
Canada	\$ 238,153	\$ 11	\$ 227	\$ 237,937	\$ 241,352	\$ 765	\$ 41	\$ 242,076
A province or municipality	148,555	409	132	148,832	95,826	430	43	96,213
Other debt securities	41,406	50	38	41,418	3,236	—	1	3,235
Equity securities								
Preferred shares	107,104	1,564	739	107,929	71,897	1,176	224	72,849
Other equity	5,269	—	365	4,904	516	618	—	1,134
Total	\$ 540,487	\$ 2,034	\$ 1,501	\$ 541,020	\$ 412,827	\$ 2,989	\$ 309	\$ 415,507

## 5. Loans

Outstanding gross loans and impaired loans, net of allowances for credit losses, are as follows:

	2004				2003			
	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans	Gross Amount	Gross Impaired Amount	Specific Allowance	Net Impaired Loans
Securities purchased under resale agreements	\$ 74,966	\$ -	\$ -	\$ -	\$ 72,000	\$ -	\$ -	\$ -
Consumer and personal	431,891	847	386	461	388,516	2,421	503	1,918
Real estate	1,556,411	4,485	1,494	2,991	1,442,271	3,376	841	2,535
Industrial	724,853	4,819	1,335	3,484	609,951	7,276	2,849	4,427
Other	1,256,279	14,739	7,289	7,450	1,123,630	9,168	3,614	5,554
Totals	\$ 4,044,400	\$ 24,890	\$ 10,504	14,386	\$ 3,636,368	\$ 22,241	\$ 7,807	14,434
General allowance <sup>(1)</sup>				(28,816)				(27,558)
Net impaired loans after general allowance				\$ (14,430)				\$ (13,124)

<sup>(1)</sup> The general allowance for credit risk is available for the total loan portfolio.

<sup>(2)</sup> There are no foreclosed real estate assets held for sale.

There are no outstanding other past due loans. Other past due loans are loans where payment of interest or principal is contractually 90 – 180 days in arrears or government insured loans where payment of interest or principal is contractually 365 days in arrears but are not classified as impaired because they are well secured and considered fully collectible.

During the year interest recognized as income on impaired loans totalled \$449 (2003 - \$2,063).

## 6. Allowance for Credit Losses

The following table shows the changes in the allowance for credit losses during the year.

	2004			2003		
	Specific Provisions	General Allowance for Credit Risk	Total	Specific Provisions	General Allowance for Credit Risk	Total
Balance at beginning of year	\$ 7,807	\$ 27,558	\$ 35,365	\$ 7,208	\$ 23,797	\$ 31,005
Provision for credit losses	8,132	1,258	9,390	4,839	3,761	8,600
Write-offs	(5,745)	-	(5,745)	(4,327)	-	(4,327)
Recoveries	310	-	310	87	-	87
Balance at end of year	\$ 10,504	\$ 28,816	\$ 39,320	\$ 7,807	\$ 27,558	\$ 35,365

The Bank has virtually no loans booked outside of Canada and therefore has no country risk provisions.

## 7. Land, Buildings and Equipment

	2004		2003	
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	\$ 2,783	\$ -	\$ 2,783	\$ 2,935
Buildings	4,545	2,257	2,288	1,064
Computer equipment	14,996	10,702	4,294	3,008
Office equipment and furniture	9,070	6,196	2,874	1,863
Leasehold improvements	12,239	5,979	6,260	4,149
Total	\$ 43,633	\$ 25,134	\$ 18,499	\$ 13,019

Depreciation and amortization for the year amounted to \$4,020 (2003 - \$3,088).



## 8. Goodwill and Intangible Assets

	Cost	Accumulated Amortization	2004 Net Book Value
Goodwill	\$ 6,933	\$ —	\$ 6,933
Identifiable intangible assets			
Customer relationships	3,950	235	3,715
Trademark	300	—	300
Others	330	36	294
	4,580	271	4,309
Total	\$ 11,513	\$ 271	\$ 11,242

Amortization of customer relationships and other intangible assets for the year amounted to \$271 (2003 - nil). The trademark has an indefinite life and is not subject to amortization. Goodwill includes \$3,679 related to the banking and trust segment and \$3,254 related to the insurance segment. The goodwill and intangible assets were acquired in 2004 and therefore there are no comparative figures.

## 9. Insurance Related Other Assets

	2004
Instalment premiums receivable	\$ 16,588
Reinsurers' share of unpaid claims and adjustment expenses	12,106
Reinsurers' share of unearned premiums	10,670
Deferred policy acquisition expenses	6,483
Due from reinsurers	4,848
Recoverable on unpaid claims	4,888
Total	\$ 55,583

The insurance operations were acquired during 2004 and therefore there are no comparative figures.

## 10. Other Assets

	2004	2003
Accrued interest receivable	\$ 16,270	\$ 13,391
Prepaid expenses	9,473	8,749
Future income tax asset	8,329	8,262
Accounts receivable	11,716	1,924
Taxes receivable	5,169	—
Deferred financing costs <sup>(1)</sup>	1,076	1,394
Other	3,245	1,531
Total	\$ 55,278	\$ 35,251

<sup>(1)</sup> Amortization for the year amounted to \$215 (2003 - \$178). During the year, deferred financing costs of \$103 (2003-\$nil) were charged to retained earnings on the conversion of debentures and were offset against forfeited interest (see also Note 14).

## 11. Deposits

	Individuals	Business and Government	Financial Institutions	2004 Total
Payable on demand	\$ 11,388	\$ 178,826	\$ —	\$ 190,214
Payable after notice	247,575	414,943	—	662,518
Payable on a fixed date	2,719,912	674,807	20,337	3,415,056
Total	\$ 2,978,875	\$ 1,268,576	\$ 20,337	\$ 4,267,788

	Individuals	Business and Government	Financial Institutions	2003 Total
Payable on demand	\$ 8,162	\$ 128,712	\$ —	\$ 136,874
Payable after notice	199,886	319,674	—	519,560
Payable on a fixed date	2,598,171	540,048	25,097	3,163,316
Total	\$ 2,806,219	\$ 988,434	\$ 25,097	\$ 3,819,750

## 12. Insurance Related Other Liabilities

	2004
Unearned premiums	\$ 43,220
Unpaid claims and adjustment expenses	36,970
Due to insurance companies	7,116
Unearned reinsurance commissions	3,121
Total	\$ 90,427

The insurance operations were acquired during 2004 and therefore there are no comparative figures.

## 13. Other Liabilities

	2004	2003
Accrued interest payable	\$ 52,707	\$ 57,286
Accounts payable	4,528	4,082
Future income tax liability (Note 18)	1,727	235
Deferred revenue	941	537
Taxes payable	726	5,383
Other	3,687	1,040
Total	\$ 64,316	\$ 68,563

## 14. Subordinated Debentures

Each of the following qualifies as a bank debenture under the Bank Act and is subordinate in right of payment to all deposit liabilities. All redemptions are subject to the approval of OSFI. The convertible debentures are financial instruments which have both debt and equity components. The recommendation issued by the CICA to account for these components separately was considered but the value assignable to the conversion option at the date of issue was deemed to be immaterial in each case.

Interest Rate	Maturity Date	Earliest Date Redeemable or Convertible by CWB	2004	2003
<b>Conventional</b>				
6.85% <sup>(1)</sup>	June 30, 2012	June 30, 2007	\$ 3,126	\$ 3,126
5.66% <sup>(2)</sup>	July 7, 2013	July 7, 2008	30,000	30,000
5.96% <sup>(2)</sup>	October 24, 2013	October 24, 2008	35,000	35,000
			68,126	68,126
<b>Convertible</b>				
5.50% <sup>(3)</sup>	March 31, 2008	March 31, 2003	42,474	49,825
5.70% <sup>(4)</sup>	July 31, 2009	July 31, 2004	—	4,000
			42,474	53,825
Total			\$ 110,600	\$ 121,951

<sup>(1)</sup> This conventional debenture has a ten-year term with a fixed interest rate for the first five years. Thereafter, unless the terms are amended or the debenture is redeemed by the Bank, interest will be payable at a rate equal to the Canadian Dollar CDOR 90 day Bankers' Acceptance rate plus 100 basis points.

<sup>(2)</sup> These conventional debentures have a ten-year term with a fixed interest rate for the first five years. Thereafter, the interest rate will be reset quarterly to the Canadian Dollar CDOR 90 day Bankers' Acceptance rate plus 175 basis points.

<sup>(3)</sup> These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for redemption by the Bank, whichever is earlier, at a conversion price of \$30.50 per share (1,392,596 shares, 2003 - 1,633,603 shares). During the year, convertible debentures of \$7,351 (2003 - \$175) were converted by the holders into 241,007 (2003 - 5,736) common shares. Interest expense accrued on the debentures prior to conversion and forfeited by the debenture holders of \$81 (2003-\$nil) was credited to retained earnings and offset against unamortized deferred financing costs (see also Note 10).

<sup>(4)</sup> The Bank redeemed the debenture on August 1, 2004 for 160,000 shares.

On November 5, 2004 the Bank announced its intention to redeem all of the outstanding 5.5% convertible debentures on December 14, 2004. As a result, under the terms of the trust indenture, the trustee will convert all outstanding debentures into common shares on the last day before the redemption date.

On November 19, 2004, the Bank issued \$60,000 of conventional subordinated debentures. The new debentures have a fixed interest rate of 5.55% until November 19, 2009. Thereafter the rate will be reset quarterly at the Canadian dollar CDOR 90 day Bankers' Acceptance rate plus 160 basis points until maturity on November 19, 2014. The Bank may redeem the debentures on or after November 20, 2009 with the approval of OSFI.

## 15. Capital Stock

Authorized:

An unlimited number of common shares without nominal or par value

33,964,324 class A shares without nominal or par value

25,000,000 first preferred shares without nominal or par value, issuable in series

Issued and fully paid:

	2004		2003	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Outstanding at beginning of year	13,002,066	\$ 150,782	12,659,372	\$ 145,203
Issued on conversion of debentures	401,007	11,351	5,736	175
Issued on exercise of options	262,057	4,992	336,958	5,404
Outstanding at end of year	13,665,130	\$ 167,125	13,002,066	\$ 150,782

The Bank has subordinated debentures which are convertible to common shares of the Bank as more fully described in Note 14.

The Bank is prohibited by the Bank Act from declaring any dividends on common shares when the Bank is or would be placed, as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the Act. These limitations do not currently restrict the payment of dividends.

## 16. Insurance Operations

As described in Note 3, the Bank acquired Canadian Direct Insurance Incorporated (the Company) on April 30, 2004. Accordingly, the results of operations have been included since the date of acquisition and no comparatives for 2003 are presented. The following information outlines issues specifically related to insurance operations.

### (a) Insurance income

Insurance income reported in other income on the consolidated statement of income is presented net of claims, adjustment and policy acquisition expenses.

	2004
Net earned premiums and other	\$ 30,761
Net claims, adjustment and policy acquisition expenses	22,865
	\$ 7,896

### (b) Unpaid claims and adjustment expenses

#### (i) Nature of unpaid claims

The establishment of the provision for unpaid claims and adjustment expenses and the related reinsurers' share is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claims frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the claims department personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as liability claims.



## 16. Insurance Operations (continued)

Consequently, the establishment of the provision for unpaid claims and adjustment expenses relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

### *ii) Provision for unpaid claims and adjustment expenses*

An annual evaluation of the adequacy of unpaid claims is completed at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims and adjustment expenses for the period ended October 31, 2004 follows:

	2004
Unpaid claims and adjustment expenses, net, April 30, 2004	\$ 15,885
Claims incurred	
In the current period	10,970
In prior periods	188
Claims paid during the period	(7,067)
Unpaid claims and adjustment expenses, net, October 31, 2004	19,976
Reinsurers' share of unpaid claims and adjustment expenses, October 31, 2004	12,106
Recoverable on unpaid claims	4,888
Unpaid claims and adjustment expenses, October 31, 2004	\$ 36,970

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries are discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The investment rate of return used for the period ended October 31, 2004 was 3.8%. However, that rate was reduced by a 1% provision for adverse deviation in discounting the provision for unpaid claims and adjustment expenses and related reinsurance recoveries. The impact of this provision for adverse deviation results in an increase in unpaid claims and adjustment expenses and related reinsurance recoveries by \$423.

Policy balances, included in insurance related other assets and other liabilities, analyzed by major line of business are as follows:

	2004	
	Automobile	Property
Unpaid claims and adjustment expenses, net	\$ 31,977	\$ 4,993
Reinsurers' share of unpaid claims and adjustment expenses	9,599	2,507
Unearned premiums	33,438	9,782
Reinsurers' share of unearned premiums	8,225	2,445

### *c) Underwriting policy and reinsurance ceded*

Reinsurance contracts with coverage up to maximum policy limits are entered into to protect against losses in excess of certain amounts that may arise from automobile, personal property and liability claims.

Reinsurance with a limit of \$100,000 is also obtained to protect against certain catastrophic losses. Due to the geographic concentration of the business, management believes earthquakes and windstorms are its most significant exposure to catastrophic losses. Utilizing sophisticated computer modeling techniques developed by independent consultants to quantify the estimated exposure to such losses, management believes that there is sufficient catastrophe reinsurance protection.

Twenty-five per cent of gross retentions are ceded under the quota share arrangement.

At October 31, 2004, \$12,106 of unpaid claims and adjustment expenses was recorded as recoverable from the reinsurers.

Failure of a reinsurer to honour its obligation could result in losses. The financial condition of its reinsurers are evaluated to minimize the exposure to significant losses from reinsurer insolvency.

## 16. Insurance Operations (continued)

The amounts shown in other income are net of the following amounts relating to reinsurance ceded to other insurance companies:

	2004
Premiums earned reduced by	\$ 12,129
Claims incurred reduced by	6,661

## 17. Share Incentive Plans

The Bank has authorized 1,266,309<sup>(1)</sup> common shares (2003 - 1,193,391) for issuance under share incentive plans. Of the amount authorized, options exercisable into 1,260,735 shares (2003 - 1,153,992) are issued and outstanding. The options generally vest within three years and are exercisable at a fixed price equal to the average of the market price on the day of and the four days preceding the grant. All options expire within ten years of date of grant. Outstanding options expire on dates ranging from November 2004 to September 2009.

The details of and changes in the issued and outstanding options follow:

	2004		2003	
Options	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	1,153,992	\$ 24.02	1,129,815	\$ 19.28
Granted	378,500 <sup>(1)</sup>	40.23	371,235	31.26
Exercised	(262,057)	19.05	(336,958)	16.04
Forfeited	(9,700)	32.74	(10,100)	25.48
Balance at end of year	1,260,735	\$ 29.85	1,153,992	\$ 24.02
Exercisable at end of year	518,700	\$ 21.34	637,957	\$ 19.26

<sup>(1)</sup> Of this amount, 221,000 options are subject to shareholder and Toronto Stock Exchange approval.

Further details relating to stock options outstanding and exercisable follow:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	
\$10.25 to \$14.00	122,149	1.6	\$ 12.08	122,149	\$ 12.08	
\$18.73 to \$19.50	103,800	2.9	19.08	103,800	19.08	
\$20.44 to \$24.79	55,845	0.8	24.29	55,845	24.29	
\$25.87 to \$28.23	350,141	1.8	26.42	236,906	26.41	
\$33.04 to \$39.98	282,300	3.9	33.98	—	—	
\$40.21 to \$43.35	346,500	4.8	40.34	—	—	
	1,260,735	3.1	\$ 29.85	518,700	\$ 21.34	

Salary expense of \$907 (2003 - \$252) has been recognized relating to the estimated fair value of options granted since November 1, 2002. The fair value of options granted was estimated using a binomial option pricing model with the following variables and assumptions: (i) risk-free interest rate of 3.8% (2003 - 4.1%), (ii) expected option life of 3.9 (2003 - 3.9) years, (iii) expected volatility of 19% (2003 - 21%), and (iv) expected dividends of 1.8% (2003 - 1.5%). The weighted average fair value of options granted was estimated at \$6.52 (2003 - \$5.59) per share.

## 18. Income Taxes

The provision for income taxes consists of the following:

	2004	2003
Current	\$ 19,072	\$ 23,211
Future	414	(1,581)
Provision for income taxes	\$ 19,486	\$ 21,630

A reconciliation of the statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that is reported in the consolidated statement of income is as follows:

	2004		2003	
Combined Canadian federal and provincial income taxes and statutory tax rate	\$ 22,532	35.4%	\$ 22,584	37.8 %
Increase (decrease) arising from:				
Tax-exempt income	(4,095)	(6.4)	(1,887)	(3.2)
Large corporations tax	351	0.6	358	0.6
Other	698	1.0	575	1.0
Provision for income taxes and effective tax rate	\$ 19,486	30.6%	\$ 21,630	36.2 %

Future income tax balances are comprised of the following:

	2004	2003
Net future income tax assets		
Allowance for credit losses	\$ 10,007	\$ 9,613
Other temporary differences	(1,678)	(1,351)
	\$ 8,329	\$ 8,262
Net future income tax liabilities		
Intangible assets	\$ 1,596	\$ -
Allowance for credit losses	(439)	(415)
Other temporary differences	570	650
	\$ 1,727	\$ 235

The Bank has approximately \$11,832 (2003 - \$11,851) of capital losses which are available to apply against future capital gains and have no expiry date. The tax benefit of these losses has not been recognized in the consolidated financial statements.

## 19. Earnings per Common Share

The calculation of earnings per common share is as follows:

	2004	2003
Numerator		
Net income - basic	\$ 44,161	\$ 38,193
Dilutive instruments:		
Conversion of debentures <sup>(1)</sup>	1,733	1,947
Net income - diluted	\$ 45,894	\$ 40,140
Denominator		
Weighted average number of common shares outstanding - basic	13,391,242	12,808,335
Dilutive instruments:		
Conversion of debentures <sup>(2)</sup>	1,547,872	1,798,578
Employee stock options <sup>(3)</sup>	369,467	329,782
Weighted average number of common shares outstanding - diluted	15,308,581	14,936,695
Earnings per Common Share		
Basic	\$ 3.30	\$ 2.98
Diluted	\$ 3.00	\$ 2.69

<sup>(1)</sup> Net income is adjusted by the potential impact on earnings if the convertible debentures were converted into common shares at the beginning of the year.

<sup>(2)</sup> See note 14 for more information about the convertible subordinated debentures.

<sup>(3)</sup> The denominator excludes those employee stock options where the exercise price is greater than the average monthly market price.



## 20. Contingent Liabilities and Commitments

### a) Credit Instruments

In the normal course of business, the Bank enters into various commitments and has contingent liabilities which are not reflected in the consolidated balance sheet. These items are reported below and are expressed in terms of the contractual amount of the related commitment.

	2004	2003
Credit Instruments		
Guarantees and standby letters of credit	\$ 94,270	\$ 64,413
Commitments to extend credit	989,433	812,082
<b>Total</b>	<b>\$ 1,083,703</b>	<b>\$ 876,495</b>

Guarantees and standby letters of credit represent the Bank's obligation to make payments to third parties when a customer is unable to make required payments or meet other contractual obligations. These instruments carry the same credit risk, recourse and collateral security requirements as loans extended to customers and generally have a term that does not exceed one year. Losses, if any, resulting from these transactions are not expected to be material.

Commitments to extend credit to customers also arise in the normal course of business and include undrawn availability under lines of credit and commercial operating loans of \$370,000 (2003 - \$294,000) and recently authorized but unfunded loan commitments of \$619,000 (2003 - \$518,000). In the majority of instances, availability of undrawn commercial commitments is subject to the borrower meeting specified financial tests or other covenants regarding completion or satisfaction of certain conditions precedent. It is also usual practice to include the right to review and withhold funding in the event of a material adverse change in the financial condition of the borrower. From a liquidity perspective, undrawn credit authorizations will be funded over time with draws in many cases extending over a period of months. In some instances authorizations are never advanced or may be reduced because of changing requirements. The balance of commitments to extend credit shown in the table above does not account for principal drawdowns or paybacks that occur in the normal course of operations. Revolving credit authorizations are subject to repayment which on a pooled basis also decreases liquidity risk.

### b) Lease Commitments

The Bank has obligations under long-term non-cancellable operating leases for the rental of premises and office equipment. Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

2005	\$ 5,032
2006	4,666
2007	4,382
2008	3,485
2009	2,983
2010 and thereafter	15,074
<b>Total</b>	<b>\$ 35,622</b>

### c) Guarantees

A guarantee is defined as a contract that contingently requires the guarantor to make payments to a third party based on i) changes in an underlying economic characteristic that is related to an asset, liability or equity security of the guaranteed party, ii) failure of another party to perform under an obligating agreement, or iii) failure of another third party to pay indebtedness when due.

Significant guarantees provided to third parties include guarantees and standby letters of credit as discussed above.

In the ordinary course of business, the Bank enters into contractual arrangements under which the Bank may agree to indemnify the other party. Under these agreements, the Bank may be required to compensate counterparties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. A maximum potential liability cannot be identified as the terms of these arrangements vary and generally no pre-determined amounts or limits are identified. The likelihood of occurrence of contingent events that would trigger payment under these arrangements is either remote or difficult to predict and in the past payments under these arrangements have been insignificant.

The Bank issues personal and business credit cards through an agreement with a third party card issuer. The Bank has indemnified the card issuer from loss if there is a default on the issuer's collection of the business credit card balances. The Bank has provided no indemnification relating to the personal or travel reward credit card balances. The issuance of business credit cards and establishment of business credit card limits are approved by the Bank and subject to the same credit assessment, approval and monitoring as the extension of direct loans. At year end, the total approved business credit card limit was \$2,002 (2003 - \$114) and the balance outstanding was \$376 (2003 - \$6). No payments have been made to date under the indemnity.

No amounts are reflected in the consolidated financial statements related to these guarantees and indemnifications.

## 21. Trust Assets Under Administration

Trust assets under administration of \$1,759,473 (2003 - \$1,474,964) represent assets held for personal and corporate clients, administered by a subsidiary, and are kept separate from the subsidiary's own assets. Trust assets under administration are not reflected in the consolidated balance sheet.

## 22. Related Party Transactions

The Bank makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amount outstanding for these type of loans is \$27,045 (2003 - \$21,319).

## 23. Interest Rate Sensitivity

The Bank is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest sensitive assets and liabilities. The following table shows the gap position at October 31 for selected time intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

October 31, 2004 (\$millions)	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Non- interest Sensitive	Total
<b>Assets</b>								
Cash resources	\$ 64	\$ 27	\$ 96	\$ 187	\$ —	\$ —	\$ 45	\$ 232
Securities	43	53	225	321	150	67	3	541
Loans	2,190	146	390	2,726	1,313	5	(39)	4,005
Other assets	—	—	—	—	—	—	136	136
Derivative financial instruments <sup>(1)</sup>	25	10	226	261	639	—	—	900
<b>Total</b>	<b>2,322</b>	<b>236</b>	<b>937</b>	<b>3,495</b>	<b>2,102</b>	<b>72</b>	<b>145</b>	<b>5,814</b>
<b>Liabilities and Equity</b>								
Deposits	1,400	217	904	2,521	1,746	—	1	4,268
Other liabilities	4	6	9	19	17	—	132	168
Debentures	—	42	—	42	68	—	—	110
Shareholders' equity	—	—	—	—	—	—	368	368
Derivative financial instruments <sup>(1)</sup>	900	—	—	900	—	—	—	900
<b>Total</b>	<b>2,304</b>	<b>265</b>	<b>913</b>	<b>3,482</b>	<b>1,831</b>	<b>—</b>	<b>501</b>	<b>5,814</b>
<b>Interest Rate Sensitive Gap</b>	<b>\$ 18</b>	<b>\$ (29)</b>	<b>\$ 24</b>	<b>\$ 13</b>	<b>\$ 271</b>	<b>\$ 72</b>	<b>\$ (356)</b>	<b>\$ —</b>
<b>Cumulative Gap</b>	<b>\$ 18</b>	<b>\$ (11)</b>	<b>\$ 13</b>	<b>\$ 13</b>	<b>\$ 284</b>	<b>\$ 356</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Cumulative Gap as a</b>								
Percentage of Total Assets	0.3%	(0.2)%	0.2%	0.2%	4.9%	6.1%	—	—
<b>October 31, 2003</b>								
Total assets	\$ 2,084	\$ 421	\$ 952	\$ 3,457	\$ 1,580	\$ 40	\$ 52	\$ 5,129
Total liabilities and equity	1,899	386	1,046	3,331	1,396	—	402	5,129
Interest Rate Sensitive Gap	\$ 185	\$ 35	\$ (94)	\$ 126	\$ 184	\$ 40	\$ (350)	\$ —
Cumulative Gap	\$ 185	\$ 220	\$ 126	\$ 126	\$ 310	\$ 350	\$ —	\$ —
Cumulative Gap as a								
Percentage of Total Assets	3.6%	4.3%	2.5%	2.5%	6.0%	6.8%	—	—

### Notes:

<sup>(1)</sup> Derivative financial instruments are included in this table at the notional amount.

<sup>(2)</sup> Accrued interest is excluded in calculating interest sensitive assets and liabilities.

<sup>(3)</sup> Potential prepayments of fixed rate loans and early redemption of redeemable fixed term deposits have not been estimated. Redemptions of fixed term deposits where depositors have this option are not expected to be material. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

## 23. Interest Rate Sensitivity (continued)

The effective, weighted average interest rates for each class of financial asset and liability, including off-balance sheet instruments, are shown below.

	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Total
October 31, 2004							
Assets							
Cash resources	2.2%	2.6%	2.6%	2.5%	—%	—%	2.5%
Securities	0.3	2.3	2.3	2.6	4.0	6.6	3.5
Loans	5.3	5.1	6.1	5.4	6.4	6.2	5.7
Derivative financial instruments	3.0	4.1	2.9	2.9	3.6	—	3.4
Total	5.1	4.1	4.2	4.8	5.4	6.6	5.0
Liabilities							
Deposits	1.7	3.1	3.3	2.4	3.9	—	3.0
Debentures	—	5.5	—	5.5	5.9	—	5.7
Derivative financial instruments	2.5	—	—	2.5	—	—	2.5
Total	2.0	3.4	3.3	2.5	3.9	—	3.0
Interest Rate Sensitive Gap	3.1%	0.7%	0.9%	2.3%	1.5%	6.6%	2.1%
October 31, 2003							
Total assets	5.4%	4.0%	4.7%	5.0%	6.0%	7.1%	5.3%
Total liabilities	2.2	3.4	3.9	2.9	4.5	—	3.4
Interest Rate Sensitive Gap	3.2%	0.6%	0.8%	2.1%	1.5%	7.1%	1.9%

## 24. Fair Value of Financial Instruments

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted market price. However, most of the Bank's financial instruments lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of the majority of the financial instruments is not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity. The carrying value of financial instruments held for trading purposes would be continually adjusted to reflect fair value. At October 31, 2004 and 2003 there were no financial instruments held for trading purposes.

The table below sets out the fair values of on-balance sheet financial instruments and off-balance sheet derivative instruments using the valuation methods and assumptions referred to below the table. The table does not include assets and liabilities that are not considered financial instruments.

	2004			2003		
	Book Value	Fair Value	Fair Value Over(Under)	Book Value	Fair Value	Fair Value Over(Under)
Assets						
Cash resources	\$ 232,726	\$ 232,726	\$ —	\$ 281,872	\$ 281,872	\$ —
Securities	540,487	541,020	533	412,827	415,507	2,680
Loans <sup>(1)</sup>	4,005,253	3,998,500	(6,753)	3,599,008	3,608,566	9,558
Other assets <sup>(2)</sup>	72,799	72,799	—	16,846	16,846	—
Liabilities						
Deposits <sup>(1)</sup>	4,267,788	4,283,947	16,159	3,819,536	3,853,955	34,419
Other liabilities <sup>(3)</sup>	170,036	168,354	(1,682)	84,228	84,228	—
Subordinated debentures	110,613	111,778	1,165	121,951	124,938	2,987

<sup>(1)</sup> Loans and deposits exclude deferred premiums and deferred revenue which are not financial instruments.

<sup>(2)</sup> Other assets exclude land, buildings and equipment, goodwill and other intangible assets, reinsurer's share of unpaid claims and adjustment expense, future income tax asset, prepaid and deferred expenses, financing costs and other items which are not financial instruments.

<sup>(3)</sup> Other liabilities exclude future income tax liability, deferred revenue and other items which are not financial instruments.

<sup>(4)</sup> For further information on interest rates associated with financial assets and liabilities, including off-balance sheet instruments, refer to Note 23.



## 24. Fair Value of Financial Instruments (continued)

The methods and assumptions used to estimate the fair values of on-balance sheet financial instruments are as follows:

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature;
- securities are assumed to be equal to the estimated market value of securities provided in Note 4. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are used to estimate fair value;
- loans reflect changes in the general level of interest rates which have occurred since the loans were originated and are net of the allowance for credit losses. For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. For all other loans, fair value is estimated by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks;
- deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows at current market rates for deposits of similar terms; and
- the fair values of subordinated debentures are determined by reference to current market prices for debt with similar terms and risks.

Fair values are based on management's best estimates based on market conditions and pricing policies at a certain point in time. The estimates are subjective and involve particular assumptions and matters of judgement and as such may not be reflective of future fair values.

## 25. Derivative Financial Instruments

The Bank enters into off-balance sheet derivative financial instruments for risk management purposes.

Interest rate swaps and interest rate floors (or caps) are used as hedging devices to control interest rate risk. The Bank only enters into these interest rate derivative instruments for its own account and does not act as an intermediary in this market. The credit risk is limited to the amount of any adverse change in interest rates applied on the notional contract amount should the counterparty default. Equity contracts are used to offset the return paid to depositors on certain deposit products where the return is linked to a stock index. The credit risk is limited to the average return on an equity index applied on the notional contract amount should the counterparty default. The principal amounts are not exchanged and hence are not at risk. Approved counterparties and maximum notional limits are established and monitored by the Asset Liability Committee (ALCO) of the Bank.

Foreign exchange transactions are undertaken only for the purposes of meeting needs of clients and of day to day business. Foreign exchange markets are not speculated in by taking a trading position in currencies. Maximum exposure limits are established and monitored by ALCO and are defined by allowable unhedged amounts. The position is managed within the allowable target range by spot and forward transactions or other hedging techniques. Exposure to foreign exchange risk is not material to the Bank's overall position.

The following table summarizes the off-balance sheet financial instrument portfolio and the related credit risk. Notional amounts represent the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not recorded on the consolidated balance sheet. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The future credit exposure represents the potential for future changes in value and is based on a formula prescribed by OSFI. The credit risk equivalent is the sum of the future credit exposure and the replacement cost. The risk-weighted balance represents the credit risk equivalent weighted according to the credit worthiness of the counterparty as prescribed by OSFI. Additional discussion of OSFI's capital adequacy requirements is provided in the Capital Management section of Management's Discussion and Analysis.

	2004					2003				
	Notional Amount	Replace- ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk- weighted Balance	Notional Amount	Replace- ment Cost	Future Credit Exposure	Credit Risk Equivalent	Risk- weighted Balance
Interest Rate Contracts										
Interest rate swaps	\$882,500	\$ 3,918	\$ 3,713	\$ 7,631	\$ 1,527	\$769,500	\$ 4,524	\$ 2,462	\$ 6,986	\$ 1,404
Interest rate floor	—	—	—	—	—	50,000	57	31	88	11
Equity Contracts	17,765	73	1,421	1,494	299	15,825	24	1,266	1,290	258
Foreign Exchange Contracts <sup>(1)</sup>	996	—	—	—	—	86	—	1	1	—
Total	\$901,261	\$ 3,991	\$ 5,134	\$ 9,125	\$ 1,826	\$835,411	\$ 4,605	\$ 3,760	\$ 8,365	\$ 1,673

<sup>(1)</sup> The Bank has contracted to deliver Canadian dollars in exchange for United States dollars.

## 25. Derivative Financial Instruments (continued)

The following table shows the off-balance sheet financial instruments split between those contracts that have a positive fair value (favourable contracts) and those that have a negative fair value (unfavourable contracts).

	2004				2003			
	Favourable Contracts		Unfavourable Contracts		Favourable Contracts		Unfavourable Contracts	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Contracts								
Interest rate swaps	\$ 542,000	\$ 3,915	\$ 340,500	\$ (1,377)	\$ 607,500	\$ 4,524	\$ 162,000	\$ (514)
Interest rate floor	—	—	—	—	50,000	57	—	—
Equity Contracts	2,620	73	15,145	(278)	1,600	24	14,225	(525)
Foreign Exchange Contracts	—	—	996	(42)	—	—	86	(6)
Total	\$ 544,620	\$ 3,988	\$ 356,641	\$ (1,697)	\$ 659,100	\$ 4,605	\$ 176,311	\$ (1,045)

The aggregate contractual or notional amount of the off-balance sheet financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of these financial assets and liabilities can fluctuate significantly from time to time. The average fair values of the off-balance sheet financial instruments on hand during the year are set out in the following table.

	2004	2003
Favourable off-balance sheet financial instruments (assets)	\$ 6,475	\$ 6,306
Unfavourable off-balance sheet financial instruments (liabilities)	\$ 1,310	\$ 976

The following table summarizes maturities of off-balance sheet financial instruments and weighted average interest rates paid and received on interest rate contracts.

	2004				2003			
	Maturity		Maturity		Maturity		Maturity	
	1 year or less	Over 1 to 5 years	1 year or less	Over 1 to 5 years	1 year or less	Over 1 to 5 years	1 year or less	Over 1 to 5 years
	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate	Notional Amount	Contractual Interest Rate
Interest Rate Contracts								
Interest rate swaps - receive fixed amounts <sup>(1)</sup>	\$ 140,000	2.47%	\$ 742,500	3.54%	\$ 271,000	3.07%	\$ 498,500	3.90%
Interest rate floor <sup>(2)</sup>	—	—	—	—	50,000	3.00%	—	—
Equity Contracts <sup>(3)</sup>	4,725		13,040		—		15,825	
Foreign Exchange Contracts <sup>(4)</sup>	783		—		86		—	
Total	\$ 145,508		\$ 755,540		\$ 321,086		\$ 514,325	

<sup>(1)</sup> The Bank pays (floating) interest amounts based on the one-month (30 day) Canadian Bankers' Acceptance rate.

<sup>(2)</sup> The Bank would have received interest amounts if the one-month (30 day) Canada Bankers' Acceptance rate fell below a specified rate.

<sup>(3)</sup> The contractual interest rate is not meaningful for equity contracts. The Bank receives amounts based on the increase in an equity index.

<sup>(4)</sup> The contractual interest rate is not applicable for foreign exchange contracts.

## 26. Risk Management

As part of the Bank's risk management practices, the risks that are significant to the business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk and operational risk. The nature of these risks and how they are managed is provided in the commentary on pages 42 to 45 of Management's Discussion and Analysis of Operations and Financial Condition. Information on specific measures of risk including the allowance for credit losses, derivative financial instruments, interest rate sensitivity and fair value of financial instruments are included elsewhere in these notes to the consolidated financial statements.

## 27. Segmented Information

The Bank operates principally in two industry segments – banking and trust, and insurance. These two segments differ in products and services but are both within the same geographic region. Prior to the acquisition of Canadian Direct Insurance Incorporated on April 30, 2004, the Bank operated in one industry segment.

The banking and trust segment provides services to personal clients and small to medium-sized commercial business clients primarily in western Canada. The insurance segment provides home and automobile insurance direct to individuals in Alberta and British Columbia.

For the year ended October 31, 2004	Banking and Trust		Insurance		Total
Net interest income	\$	112,381	\$	957	\$ 113,338
Other income <sup>(1)</sup>		28,134		7,965	36,099
Total revenues		140,515		8,922	149,437
Provision for credit losses		9,390		–	9,390
Non-interest expense <sup>(2)</sup>		71,510		4,890	76,400
Provision for income taxes		18,025		1,461	19,486
Net income	\$	41,590	\$	2,571	\$ 44,161
Total assets (\$ millions)	\$	4,806	\$	113	\$ 4,919

<sup>(1)</sup> Other income for the insurance segment is presented net of claims, adjustment expenses and policy acquisition expenses (see Note 16) and also includes the gain of the sale of securities.

<sup>(2)</sup> Goodwill of \$3,679 is allocated to the banking and trust segment and \$3,254 to the insurance segment. Amortization of intangible assets of \$271 is included in the banking and trust segment and \$nil in the insurance segment.

<sup>(3)</sup> Additions to land, building and equipment total \$7,326 for the banking and trust segment and \$507 for the insurance segment while related amortization amounted to \$3,616 and \$404 respectively.

<sup>(4)</sup> Transactions between the segments are reported at the exchange amount which approximates fair market value.



## 28. Subsidiaries

Canadian Western Bank Subsidiaries  
(annexed in accordance with subsection 308 (3) of the Bank Act)  
October 31, 2004

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank <sup>(1)</sup>	Percentage of Issued and Outstanding Voting Shares Owned by the Bank
Canadian Western Trust Company	10303 Jasper Avenue Edmonton, Alberta	\$ 15,414	100%
Canadian Direct Insurance Incorporated	610 - 6th Street New Westminster, British Columbia	\$ 28,205	100%
Valiant Trust Company	#310, 606 4th St. SW Calgary, Alberta	\$ 8,200	100%
CWB Canadian Western Financial Ltd.	10303 Jasper Avenue Edmonton, Alberta	\$ 101	100%

<sup>(1)</sup> The carrying value of voting shares is stated at the Bank's equity in the investments.

## 29. Future Accounting Changes

### *Consolidation of Variable Interest Entities (VIE's)*

The CICA has issued an accounting guideline that is effective November 1, 2004. The guideline provides a framework for identifying VIE's and requires the consolidation of VIE's if the company is the primary beneficiary of the VIE. Based on the existing requirements, the Bank has no significant VIE's that would require consolidation.

### *Liabilities and Equity*

Effective November 1, 2004, certain obligations that must or could be settled with a variable number of the issuer's own equity instruments are required to be presented in the financial statements as liabilities rather than equity. These requirements will have no impact on the Bank's financial statement presentation.

## 30. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

# SENIOR OFFICERS

## Chairman

**Jack C. Donald**

## Executive Officers

**Larry M. Pollock**  
President and  
Chief Executive Officer

**William J. Addington**  
Executive Vice President

**Tracey C. Ball, CA**  
Executive Vice President and  
Chief Financial Officer

**Allister J. McPherson**  
Executive Vice President

**Donald C. Kemp**  
Senior Vice President  
Credit Risk Management

## Corporate Office

**Chris H. Fowler**  
Vice President  
Credit Risk Management

**David R. Gillespie**  
Vice President and Chief Inspector

**Gail L. Harding**  
Vice President and General Counsel

**Uve Knaak**  
Vice President  
Human Resources

**Ricki L. Moffat**  
Treasurer

**David R. Pogue**  
Vice President  
Marketing and Product Development

**Michael Vos**  
Chief Technology Officer

**Jack C. Wright**  
Vice President

**Darin R. Coutu, CA**  
Senior Assistant Vice President  
and Chief Accountant  
Finance

**Dennis Crough**  
Senior Assistant Vice President  
Credit Risk Management

**Les Shore**  
Senior Assistant Vice President  
Corporate Development

**Wally N. Streit**  
Senior Assistant Vice President  
Credit Risk Management

**Laurie Newlands**  
Assistant Vice President  
Administration

**Roger J. Pogue**  
Assistant Vice President  
Operations

## Commercial Banking Prairie Region

**Michael N. Halliwell**  
Vice President  
and Regional Manager

**Douglas R. Crook**  
Senior Assistant Vice President  
Main Branch, Calgary

**Gus W. Itzek**  
Senior Assistant Vice President  
Energy Lending  
Main Branch, Calgary

## Commercial Banking Northern Alberta Region

**William A. Book**  
Vice President  
and Regional Manager

**Keith Wilkes**  
Senior Assistant Vice President  
Main Branch, Edmonton

## Commercial Banking British Columbia Region

**Rod W. Sorbo**  
Vice President  
and Regional Manager

**Rob Berzins**  
Senior Assistant Vice President  
Park Place, Vancouver

## Real Estate Lending Vancouver

**Raymond L. Young**  
Vice President

**Robert E. Wigmore**  
Senior Assistant Vice President

## Industrial Lending and Leasing

**James O. Burke**  
Vice President

## Canadian Western Trust Company

**Adrian M. Baker**  
Vice President  
and Chief Operating Officer

**Cathy L. Phillips**  
Managing Director  
Fiduciary Operations and  
Risk Management

**Robert D. Nakoneshny**  
Managing Director,  
Strategic and Business Development

## Valiant Trust Company

**Adrian Baker**  
President

## Canadian Direct Insurance Incorporated

**Brian Young**  
President and Chief Executive Officer

**Susannah Bach**  
Vice President  
Corporate and Strategic Operations

**Colin Brown**  
Chief Operating Officer

**Michael Martino**  
Chief Financial Officer

**Vince Muto**  
Vice President, Claims

**Ombudsman**  
R. Graham Gilbert

## BOARD OF DIRECTORS

### **Canadian Western Bank and Trust**

**Charles R. Allard**

President  
Rosedale Meadows Development Inc.  
Edmonton, Alberta

**Albrecht W. A. Bellstedt, QC**

Executive Vice President  
Law and General Counsel  
TransCanada Corporation  
Calgary, Alberta

**Jack C. Donald**

President and CEO  
Parkland Properties Ltd.  
Red Deer, Alberta

**Allan W. Jackson**

President  
ARCI Ltd.  
Calgary, Alberta

**Wendy A. Leaney**

President  
Wyoming Associates Ltd.  
Toronto, Ontario

**Robert A. Manning**

President  
Cathton Holdings Ltd.  
Edmonton, Alberta

**Gerald A.B. McGavin, FCA, CM**

President  
McGavin Properties Inc.  
Vancouver, British Columbia

**Howard E. Pechet**

President  
Mayfield Consulting Inc.  
La Jolla, California, USA

**Robert L. Phillips**

President  
R.L. Phillips Investments Inc.  
North Vancouver, British Columbia

**Larry M. Pollock**

President and Chief Executive Officer  
Canadian Western Bank and Trust  
Edmonton, Alberta

**Alan M. Rowe, CA**

Senior Vice President,  
Chief Financial Officer and  
Corporate Secretary  
Crown Life Insurance Company  
Regina, Saskatchewan

**Arnold J. Shell**

President  
Arnold J. Shell Consulting Inc.  
Calgary, Alberta

### **Directors Emeritus**

**John Goldberg**

**Jordan L. Golding**

**Arthur G. Hiller**

**Peter M.S. Longcroft**

**Dr. Maurice W. Nicholson**

**Alma M. McConnell**

**Eugene I. Pechet**

**Dr. Maurice M. Pechet**

**Fred Sparrow**

## AWARDS OF EXCELLENCE

Awards of Excellence recognize employees who display qualities for which CWB is known and which are inherent under the brand Think Western®. Award recipients for 2004 include:

Deb Lehune  
Debbie Mackisey  
Kim Merkosky

Ornella Morgan  
Jeff Picardel  
Jennifer Skoreiko

Shin Tsuchida  
Greg Wyma  
All CWT Staff (joint award)



# SHAREHOLDER INFORMATION

## Canadian Western Bank and Trust

### Head Office

Suite 2300, Canadian Western Bank Place  
10303 Jasper Avenue  
Edmonton, Alberta T5J 3X6  
Telephone: (780) 423-8888  
Fax: (780) 423-8897  
Website: [www.cwbank.com](http://www.cwbank.com)

### Subsidiary Regional Office

Canadian Western Trust Company  
Suite 2200, 666 Burrard Street  
Vancouver, B.C. V6C 2X8  
Telephone: (604) 685-2081  
Fax: (604) 669-6069  
Website: [www.cwt.ca](http://www.cwt.ca)

## Canadian Direct Insurance Incorporated

Suite 217, 610 – 6th Street  
New Westminster, British Columbia V3L 3C2  
Telephone: (888) 225-5234  
Fax: (604) 517-3224  
Website: [www.canadiandirect.com](http://www.canadiandirect.com)

## Valiant Trust Company

Suite 310, 606 – 4th Street S.W.  
Calgary, Alberta T2P 1T1  
Telephone: (403) 233-2801  
Fax: (403) 233-2857

## Stock Exchange Listing

The Toronto Stock Exchange  
Share Symbol: CWB

## Transfer Agent and Registrar Mailing Address

Valiant Trust Company  
Suite 310, 606 – 4th Street SW  
Calgary, Alberta T2P 1T1  
Telephone: (403) 233-2801  
Fax: (403) 233-2857

## Corporate Secretary

Gail L. Harding  
Vice President and General Counsel

## Inquiries From Shareholders

Any notification regarding change of address or change in registration of shares should be directed to the Transfer Agent. Any inquiries other than change of address or change in registration may be directed to the President and Chief Executive Officer.

## Annual Meeting

The annual meeting of the common shareholders of Canadian Western Bank will be held on March 3, 2005 at the Fairmont Palliser Hotel, 133 – 9th Avenue S.W., Calgary, Alberta at 3:00 p.m. (MST).

## Investor Relations

For further financial information contact:  
Matt Colpitts  
Senior Manager, Investor and Public Relations  
Canadian Western Bank  
Telephone: (780) 441-3770  
Fax: (780) 423-8899  
E-mail: [InvestorRelations@cwbank.com](mailto:InvestorRelations@cwbank.com)  
or visit our website at [www.cwbank.com](http://www.cwbank.com)

## Online Investor Information

Additional investor information including supplemental financial information and a corporate presentation is available on our website at [www.cwbank.com](http://www.cwbank.com)

## Complaints or Concerns regarding Accounting, Internal Accounting Controls or Auditing Matters

Please contact either:

Tracey C. Ball  
Executive Vice President and Chief Financial Officer  
Canadian Western Bank  
Telephone: (780) 423-8855  
Fax: (780) 423-8899  
E-mail: [tracey.ball@cwbank.com](mailto:tracey.ball@cwbank.com)  
or

Robert A. Manning  
Chairman of the Audit Committee  
c/o 210 – 5324 Calgary Trail  
Edmonton, AB T6H 4J8  
Telephone: (780) 438-2626  
Fax: (780) 438-2632  
E-mail: [rmanning@shawbiz.ca](mailto:rmanning@shawbiz.ca)

# BRANCH OFFICES

## Alberta

### Edmonton

#### Edmonton Main

11350 Jasper Avenue  
Edmonton, Alberta T5K 0L8  
Telephone: (780) 424-4846  
Branch Manager – Keith Wilkes

#### 103rd Street

Canadian Western Bank Place  
10303 Jasper Avenue  
Edmonton, Alberta T5J 3N6  
Telephone: (780) 423-8801  
Branch Manager – Jake Muntain

#### South Edmonton Common

2142 – 99 Street  
Edmonton, Alberta T6N 1L2  
Telephone: (780) 988-8607  
Branch Manager – Wayne Dosman

#### Southside

7933 – 104 Street  
Edmonton, Alberta T6E 4C9  
Telephone: (780) 433-4286  
Branch Manager – Heinz Kleist

#### St. Albert

300 – 700 St. Albert Road  
St. Albert, Alberta T8N 7A5  
Telephone: (780) 458-4001  
Branch Manager – Ward Fleming

#### West Point

17603 – 100 Avenue  
Edmonton, Alberta T5S 2M1  
Telephone: (780) 484-7407  
Branch Manager – Kevin MacMillen

#### Edmonton Deposit Processing Centre

Suite 2200, 10303 Jasper Avenue  
Edmonton, Alberta T5J 3X6  
Telephone: (780) 423-8888  
Branch Manager – Anna Lasic

## Calgary

### Calgary Main

606 – 4th Street S.W.  
Calgary, Alberta T2P 1T1  
Telephone: (403) 262-8700  
Branch Manager – Doug Crook

### Calgary Northeast

2810 – 32nd Avenue N.E.  
Calgary, Alberta T1Y 5J4  
Telephone: (403) 250-8838  
Branch Manager – Glen Eastwood

### Calgary Chinook

6606 MacLeod Trail S.W.  
Calgary, Alberta T2H 0K6  
Telephone: (403) 252-2299  
Branch Manager – Lew Christie

### Calgary Foothills

6127 Barlow Trail S.E.  
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Branch Manager – Chris Minke

### Red Deer

4822 – 51 Avenue  
Red Deer, Alberta T4N 4H3  
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Branch Manager – Don Odell

### Lethbridge

744 – 4th Avenue South  
Lethbridge, Alberta T1J 0N8  
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Branch Manager – Don Grummett

### Grande Prairie

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Branch Manager – David Hardy

## British Columbia

### Vancouver

#### Regional Office

22nd Floor, 666 Burrard Street  
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Telephone: (604) 669-0081  
Regional Manager – Rod Sorbo

#### West Broadway

Suite 110, 1333 West Broadway  
Vancouver, B.C. V6H 4C1  
Telephone: (604) 730-8818  
Branch Manager – Jules Mihalyi

#### Park Place

Suite 100, 666 Burrard Street  
Vancouver, B.C. V6C 2X8  
Telephone: (604) 688-8711  
Branch Manager – Rob Berzins

#### Vancouver Deposit Processing Centre

Suite 2368, 666 Burrard Street  
Vancouver, B.C. V6C 2X8  
Telephone: (604) 443-5175  
Toll free: 1-800-663-1000  
Branch Manager – Huguette Holmes

#### Coquitlam

310, 101 Schoolhouse Street  
Coquitlam, B.C. V3K 4X8  
Telephone: (604) 540-8829  
Branch Manager – David McCosh

#### Courtenay

Unit 200, 470 Puntledge Road  
Courtenay, B.C. V9N 3R1  
Telephone: (250) 334-8888  
Branch Manager – Alan Dafoe

## **Kelowna**

### **Kelowna**

1674 Bertram Street  
Kelowna, B.C. V1Y 9G4  
Telephone: (250) 862-8008  
Branch Manager – Ron Baker

### **Kelowna Industrial Centre**

#101 – 1505 Harvey Avenue  
Kelowna, B.C. V1Y 6G1  
Telephone: (250) 860-0088  
Branch Manager – Jim Kitchin

### **Cranbrook Satellite Office**

2009 – 5th Street South  
Cranbrook, B.C. V1C 1K6  
Telephone: (250) 426-1140  
Account Manager – Mike Eckersley

## **Kamloops**

Unit 112, 300 Columbia Street  
Kamloops, B.C. V2C 6L1  
Telephone: (250) 828-1070  
Manager – Hugh Sutherland

## **Langley**

100, 19915 – 64th Avenue  
Langley, B.C. V2Y 1G9  
Telephone: (604) 539-5088  
Branch Manager – Craig Martin

## **Nanaimo**

101, 6475 Metral Drive  
Nanaimo, B.C. V9T 2L9  
Telephone: (250) 390-0088  
Branch Manager – Russ Burke

## **Prince George**

300 Victoria Street  
Prince George, BC V2L 4X4  
Telephone: (250) 612-0123  
Manager – David Duck

## **Surrey Strawberry Hill**

1, 7548 – 120 Street  
Surrey, B.C. V3W 3N1  
Telephone: (604) 591-1898  
Branch Manager – Rick Howard

## **Victoria**

1201 Douglas Street  
Victoria, B.C. V8W 2E6  
Telephone: (250) 383-1206  
Branch Manager – Gerry Laliberte

## **Saskatchewan**

### **Regina**

#100, 1881 Scarth Street  
McCallum Hill Centre II  
Regina, Saskatchewan S4P 4K9  
Telephone: (306) 757-8888  
Branch Manager – Trent Bobinski

### **Saskatoon**

244 – 2nd Avenue S.  
Saskatoon, Saskatchewan S7K 1K9  
Telephone: (306) 477-8888  
Branch Manager – Doug Finnie

### **Yorkton**

#45, 277 Broadway Street E.  
Yorkton, Saskatchewan S3N 3G7  
Telephone: (306) 782-1002  
Branch Manager – Barb Apps

## **Manitoba**

### **Winnipeg**

230 Portage Avenue  
Winnipeg, Manitoba R3C 0B1  
Telephone: (204) 956-4669  
Branch Manager – Robert Bean

## **Canadian Western Trust**

### **British Columbia**

Suite 2200, 666 Burrard Street  
Vancouver, B.C. V6C 2X8  
Telephone: (604) 685-2081  
Toll free: 1-800-663-1124

### **Alberta**

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### **Manitoba**

230 Portage Avenue  
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Telephone: (204) 956-4669

## **Valiant Trust Company**

310, 606 4th Street S.W.  
Calgary, Alberta T2P 1T1  
Telephone: (403) 233-2801

## **Canadian Direct Insurance Incorporated**

### **British Columbia**

Suite 217 - 610 6th Street  
New Westminster, British Columbia V3L 3C2  
Telephone: (604) 525-2115

### **Alberta**

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Edmonton, Alberta T5J 3P4  
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